

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-32641

BROOKDALE SENIOR LIVING INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction
of incorporation or organization)*

20-3068069

(I.R.S. Employer Identification No.)

111 Westwood Place, Suite 400, Brentwood, Tennessee

(Address of principal executive offices)

37027

(Zip Code)

(615) 221-2250

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 Par Value Per Share	BKD	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2019, 185,594,591 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

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FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BROOKDALE SENIOR LIVING INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands, except stock amounts)

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 241,391	\$ 398,267
Marketable securities	49,790	14,855
Restricted cash	33,305	27,683
Accounts receivable, net	140,661	133,905
Assets held for sale	60,404	93,117
Prepaid expenses and other current assets, net	102,949	106,189
Total current assets	628,500	774,016
Property, plant and equipment and leasehold intangibles, net	5,185,681	5,275,427
Operating lease right-of-use assets	1,221,578	—
Restricted cash	40,663	24,268
Investment in unconsolidated ventures	23,211	27,528
Goodwill	154,131	154,131
Other intangible assets, net	42,776	51,472
Other assets, net	77,663	160,418
Total assets	\$ 7,374,203	\$ 6,467,260
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ 343,615	\$ 294,426
Current portion of financing lease obligations	62,839	23,135
Current portion of operating lease obligations	188,635	—
Trade accounts payable	106,109	95,049
Accrued expenses	275,828	298,227
Refundable fees and deferred revenue	81,034	62,494
Total current liabilities	1,058,060	773,331
Long-term debt, less current portion	3,228,606	3,345,754
Financing lease obligations, less current portion	795,198	851,341
Operating lease obligations, less current portion	1,319,758	—
Deferred liabilities	7,066	262,761
Deferred tax liability	16,834	18,371
Other liabilities	154,885	197,289
Total liabilities	6,580,407	5,448,847
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at September 30, 2019 and December 31, 2018; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 400,000,000 shares authorized at September 30, 2019 and December 31, 2018; 199,743,898 and 196,815,254 shares issued and 193,073,421 and 192,356,051 shares outstanding (including 7,490,129 and 5,756,435 unvested restricted shares), respectively	1,997	1,968
Additional paid-in-capital	4,167,146	4,151,147
Treasury stock, at cost; 6,670,477 and 4,459,203 shares at September 30, 2019 and December 31, 2018, respectively	(79,097)	(64,940)
Accumulated deficit	(3,301,680)	(3,069,272)
Total Brookdale Senior Living Inc. stockholders' equity	788,366	1,018,903
Noncontrolling interest	5,430	(490)
Total equity	793,796	1,018,413
Total liabilities and equity	\$ 7,374,203	\$ 6,467,260

See accompanying notes to condensed consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Resident fees	\$ 801,237	\$ 840,179	\$ 2,412,579	\$ 2,642,414
Management fees	13,564	18,528	44,756	54,280
Reimbursed costs incurred on behalf of managed communities	194,148	261,355	613,115	765,802
Total revenue	1,008,949	1,120,062	3,070,450	3,462,496
Expense				
Facility operating expense (excluding facility depreciation and amortization of \$86,213, \$101,527, \$261,110, and \$310,011, respectively)	615,717	607,076	1,792,057	1,866,477
General and administrative expense (including non-cash stock-based compensation expense of \$5,929, \$6,035, \$18,315, and \$20,710, respectively)	56,409	58,796	170,296	203,138
Facility operating lease expense	67,253	70,392	203,610	232,752
Depreciation and amortization	93,550	110,980	284,462	341,351
Goodwill and asset impairment	2,094	5,500	6,254	451,966
Loss (gain) on facility lease termination and modification, net	—	2,337	2,006	148,804
Costs incurred on behalf of managed communities	194,148	261,355	613,115	765,802
Total operating expense	1,029,171	1,116,436	3,071,800	4,010,290
Income (loss) from operations	(20,222)	3,626	(1,350)	(547,794)
Interest income	2,162	1,654	8,059	7,578
Interest expense:				
Debt	(44,344)	(46,891)	(135,180)	(141,585)
Financing lease obligations	(16,567)	(20,896)	(49,959)	(66,216)
Amortization of deferred financing costs and debt discount	(1,130)	(829)	(2,920)	(7,113)
Change in fair value of derivatives	(37)	(10)	(212)	(153)
Debt modification and extinguishment costs	(2,455)	(33)	(5,194)	(77)
Equity in earnings (loss) of unconsolidated ventures	(2,057)	(1,340)	(3,574)	(6,907)
Gain (loss) on sale of assets, net	579	9,833	2,723	76,586
Other non-operating income (loss)	3,763	(17)	9,950	8,074
Income (loss) before income taxes	(80,308)	(54,903)	(177,657)	(677,607)
Benefit (provision) for income taxes	1,800	17,763	488	17,724
Net income (loss)	(78,508)	(37,140)	(177,169)	(659,883)
Net (income) loss attributable to noncontrolling interest	50	19	646	86
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	<u>\$ (78,458)</u>	<u>\$ (37,121)</u>	<u>\$ (176,523)</u>	<u>\$ (659,797)</u>
Basic and diluted net income (loss) per share attributable to Brookdale Senior Living Inc. common stockholders	<u>\$ (0.42)</u>	<u>\$ (0.20)</u>	<u>\$ (0.95)</u>	<u>\$ (3.52)</u>
Weighted average shares used in computing basic and diluted net income (loss) per share	<u>185,516</u>	<u>187,675</u>	<u>186,130</u>	<u>187,383</u>

See accompanying notes to condensed consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total equity, balance at beginning of period	\$ 866,204	\$ 920,657	\$ 1,018,413	\$ 1,530,291
Common stock:				
Balance at beginning of period	\$ 1,998	\$ 1,938	\$ 1,968	\$ 1,913
Issuance of common stock under Associate Stock Purchase Plan	—	—	2	1
Restricted stock, net	(1)	1	31	29
Shares withheld for employee taxes	—	—	(4)	(4)
Balance at end of period	\$ 1,997	\$ 1,939	\$ 1,997	\$ 1,939
Additional paid-in-capital:				
Balance at beginning of period	\$ 4,161,045	\$ 4,139,353	\$ 4,151,147	\$ 4,126,549
Compensation expense related to restricted stock grants	5,929	6,035	18,315	20,710
Issuance of common stock under Associate Stock Purchase Plan	281	377	878	1,146
Restricted stock, net	1	(1)	(31)	(29)
Shares withheld for employee taxes	(137)	(129)	(3,238)	(2,840)
Other, net	27	48	75	147
Balance at end of period	\$ 4,167,146	\$ 4,145,683	\$ 4,167,146	\$ 4,145,683
Treasury stock:				
Balance at beginning of period	\$ (79,097)	\$ (56,440)	\$ (64,940)	\$ (56,440)
Purchase of treasury stock	—	—	(14,157)	—
Balance at end of period	\$ (79,097)	\$ (56,440)	\$ (79,097)	\$ (56,440)
Accumulated deficit:				
Balance at beginning of period	\$ (3,223,222)	\$ (3,163,690)	\$ (3,069,272)	\$ (2,541,294)
Cumulative effect of change in accounting principle (Note 2)	—	—	(55,885)	—
Net income (loss)	(78,458)	(37,121)	(176,523)	(659,797)
Other, net	—	—	—	280
Balance at end of period	\$ (3,301,680)	\$ (3,200,811)	\$ (3,301,680)	\$ (3,200,811)
Noncontrolling interest:				
Balance at beginning of period	\$ 5,480	\$ (504)	\$ (490)	\$ (437)
Net income (loss) attributable to noncontrolling interest	(50)	(19)	(646)	(86)
Noncontrolling interest contribution	—	—	6,566	—
Balance at end of period	\$ 5,430	\$ (523)	\$ 5,430	\$ (523)
Total equity, balance at end of period	\$ 793,796	\$ 889,848	\$ 793,796	\$ 889,848
Common stock share activity				
Outstanding shares of common stock:				
Balance at beginning of period	193,111	193,798	192,356	191,276
Issuance of common stock under Associate Stock Purchase Plan	41	42	137	153
Restricted stock, net	(62)	105	3,258	2,910
Shares withheld for employee taxes	(17)	(16)	(467)	(410)
Purchase of treasury stock	—	—	(2,211)	—
Balance at end of period	193,073	193,929	193,073	193,929

See accompanying notes to condensed consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2019	2018
Cash Flows from Operating Activities		
Net income (loss)	\$ (177,169)	\$ (659,883)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Debt modification and extinguishment costs	5,194	77
Depreciation and amortization, net	287,382	348,464
Goodwill and asset impairment	6,254	451,966
Equity in (earnings) loss of unconsolidated ventures	3,574	6,907
Distributions from unconsolidated ventures from cumulative share of net earnings	2,388	2,159
Amortization of deferred gain	—	(3,269)
Amortization of entrance fees	(1,172)	(1,220)
Proceeds from deferred entrance fee revenue	2,902	2,507
Deferred income tax (benefit) provision	(1,216)	(19,180)
Operating lease expense adjustment	(13,626)	(14,656)
Change in fair value of derivatives	212	153
Loss (gain) on sale of assets, net	(2,723)	(76,586)
Loss (gain) on facility lease termination and modification, net	2,006	135,760
Non-cash stock-based compensation expense	18,315	20,710
Non-cash interest expense on financing lease obligations	—	9,151
Non-cash management contract termination gain	(640)	(5,649)
Other	(7,173)	(154)
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,756)	(1,127)
Prepaid expenses and other assets, net	50,387	28,118
Prepaid insurance premiums financed with notes payable	(5,875)	(6,244)
Trade accounts payable and accrued expenses	(21,970)	(9,661)
Refundable fees and deferred revenue	(24,007)	(4,239)
Operating lease assets and liabilities for lessor capital expenditure reimbursements	12,043	—
Operating lease assets and liabilities for lease termination	—	(33,596)
Net cash provided by (used in) operating activities	<u>128,330</u>	<u>170,508</u>
Cash Flows from Investing Activities		
Change in lease security deposits and lease acquisition deposits, net	(430)	(664)
Purchase of marketable securities	(137,786)	—
Sale of marketable securities	104,000	293,273
Capital expenditures, net of related payables	(206,385)	(169,349)
Acquisition of assets, net of related payables and cash received	(453)	(271,771)
Investment in unconsolidated ventures	(4,294)	(8,946)
Distributions received from unconsolidated ventures	7,454	10,782
Proceeds from sale of assets, net	53,430	131,912
Proceeds from notes receivable	34,109	1,580
Property insurance proceeds	—	156
Net cash provided by (used in) investing activities	<u>(150,355)</u>	<u>(13,027)</u>
Cash Flows from Financing Activities		
Proceeds from debt	318,491	279,919

Repayment of debt and financing lease obligations	(404,152)	(501,946)
Proceeds from line of credit	—	200,000
Repayment of line of credit	—	(200,000)
Purchase of treasury stock, net of related payables	(18,401)	—
Payment of financing costs, net of related payables	(6,357)	(3,341)
Proceeds from refundable entrance fees, net of refunds	—	(316)
Payments for lease termination	—	(12,548)
Payments of employee taxes for withheld shares	(3,242)	(2,844)
Other	827	1,147
Net cash provided by (used in) financing activities	<u>(112,834)</u>	<u>(239,929)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(134,859)	(82,448)
Cash, cash equivalents, and restricted cash at beginning of period	450,218	282,546
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 315,359</u>	<u>\$ 200,098</u>

See accompanying notes to condensed consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business

Brookdale Senior Living Inc. ("Brookdale" or the "Company") is an operator of senior living communities throughout the United States. The Company is committed to providing senior living solutions primarily within properties that are designed, purpose-built, and operated to provide quality service, care, and living accommodations for residents. The Company operates and manages independent living, assisted living, memory care, and continuing care retirement communities ("CCRCs"). The Company also offers a range of home health, hospice, and outpatient therapy services to residents of many of its communities and to seniors living outside of its communities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments, which are of a normal and recurring nature, necessary to present fairly the financial position, results of operations, and cash flows of the Company for all periods presented. Certain information and footnote disclosures included in annual financial statements have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. These interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 14, 2019. Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the Company's condensed consolidated financial position or results of operations.

Except for the changes for the impact of the recently adopted accounting pronouncements discussed in this Note, the Company has consistently applied its accounting policies to all periods presented in these condensed consolidated financial statements.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Brookdale and its consolidated subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Investments in affiliated companies that the Company does not control, but has the ability to exercise significant influence over governance and operations, are accounted for by the equity method. The ownership interest of consolidated entities not wholly-owned by the Company are presented as noncontrolling interests in the accompanying condensed consolidated financial statements. Noncontrolling interest represents the share of consolidated entities owned by third parties. Noncontrolling interest is adjusted for the noncontrolling holder's share of additional contributions, distributions, and the proportionate share of the net income or loss of each respective entity.

Revenue Recognition

Resident Fees

Resident fee revenue is reported at the amount that reflects the consideration the Company expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Resident fee revenue is recognized as performance obligations are satisfied.

Under the Company's senior living residency agreements, which are generally for a contractual term of 30 days to one year, the Company provides senior living services to residents for a stated daily or monthly fee. The Company has elected the lessor practical expedient within Accounting Standards Codification ("ASC") 842, *Leases* ("ASC 842") and recognizes, measures, presents, and discloses the revenue for services under the Company's senior living residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts. The Company has determined that the services included under the Company's independent living, assisted living, and memory care residency agreements have the same timing and pattern of transfer. The Company recognizes revenue under ASC 606, *Revenue Recognition from Contracts with Customers* ("ASC 606") for its

independent living, assisted living, and memory care residency agreements for which it has estimated that the nonlease components of such residency agreements are the predominant component of the contract.

The Company enters into contracts to provide home health, hospice, and outpatient therapy services. Each service provided under the contract is capable of being distinct, and thus, the services are considered individual and separate performance obligations. The performance obligations are satisfied and revenue is recognized as services are provided.

The Company receives payment for services under various third-party payor programs which include Medicare, Medicaid, and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. The Company estimates the transaction price based on the terms of the contract with the payor, correspondence with the payor and historical payment trends, and retroactive adjustments that differ from the Company's estimates are recognized in the period when final settlements are determined.

Management Services

The Company manages certain communities under contracts which provide periodic management fee payments to the Company. Management fees are generally determined by an agreed upon percentage of gross revenues (as defined in the management agreement). Certain management contracts also provide for an annual incentive fee to be paid to the Company upon achievement of certain metrics identified in the contract. The Company recognizes revenue for community management services in accordance with the provisions of ASC 606. Although there are various management and operational activities performed by the Company under the contracts, the Company has determined that all community operations management activities are a single performance obligation, which is satisfied over time as the services are rendered. The Company estimates the amount of incentive fee revenue expected to be earned, if any, during the annual contract period and revenue is recognized as services are provided. The Company's estimate of the transaction price for management services also includes the amount of reimbursement due from the owners of the communities for services provided and related costs incurred. Such revenue is included in "reimbursed costs incurred on behalf of managed communities" on the condensed consolidated statements of operations. The related costs are included in "costs incurred on behalf of managed communities" on the condensed consolidated statements of operations.

Gain (Loss) on Sale of Assets

The Company regularly enters into real estate transactions which may include the disposal of certain communities, including the associated real estate. The Company recognizes income from real estate sales under ASC 610-20, *Other Income - Gains and Losses from Derecognition of Nonfinancial Assets* ("ASC 610-20"). Under ASC 610-20, income is recognized when the transfer of control occurs and the Company applies the five-step model for recognition to determine the amount and timing of income to recognize for all real estate sales.

The Company accounts for the sale of equity method investments under ASC 860, *Transfers and Servicing* ("ASC 860"). Under ASC 860, income is recognized when the transfer of control of the equity interest occurs and the Company has no continuing involvement with the transferred financial assets.

Income Taxes

Income taxes are accounted for under the asset and liability approach which requires recognition of deferred tax assets and liabilities for the differences between the financial reporting and tax basis of assets and liabilities. A valuation allowance reduces deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurement* establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Cash and cash equivalents and restricted cash are reflected in the accompanying condensed consolidated balance sheets at amounts considered by management to reasonably approximate fair value due to the short maturity.

Goodwill

The Company tests goodwill for impairment annually as of October 1 or whenever indicators of impairment arise. Factors the Company considers important in its analysis of whether an indicator of impairment exists include a significant decline in the Company's stock price or market capitalization for a sustained period since the last testing date, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. The Company first assesses qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The Company is not required to calculate the fair value of a reporting unit unless the Company determines, based on a qualitative assessment, that it is more likely than not that its fair value of a reporting unit is less than its carrying value. The fair values used in the quantitative goodwill impairment test are estimated using Level 3 inputs based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions such as revenue and expense growth rates, capitalization rates, and discount rates. The Company also considers market based measures such as earnings multiples in its analysis of estimated fair values of its reporting units. If the quantitative goodwill impairment test results in a reporting unit's carrying value exceeding its estimated fair value, an impairment charge will be recorded based on the difference. The impairment charge is limited to the amount of goodwill allocated to the reporting unit.

Long-lived Asset Impairment

Long-lived assets (including right-of-use assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use are assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset, calculated utilizing the lowest level of identifiable cash flows. If estimated future undiscounted net cash flows are less than the carrying amount of the asset then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any amount in excess of fair value recognized as an expense in the current period. Undiscounted cash flow projections and estimates of fair value amounts are based on a number of assumptions such as revenue and expense growth rates, estimated holding periods and estimated capitalization rates (Level 3).

Self-Insurance Liability Accruals

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Although the Company maintains general liability and professional liability insurance policies for its owned, leased, and managed communities under a master insurance program, the Company's current policies provide for deductibles for each and every claim. As a result, the Company is, in effect, self-insured for claims that are less than the deductible amounts. In addition, the Company maintains a high deductible workers compensation program and a self-insured employee medical program.

The Company reviews the adequacy of its accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third-party administrator estimates, consultants, advice from legal counsel, and industry data, and adjusts accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored, and estimates are updated as information becomes available.

Lease Accounting

The following is the Company's lease accounting policy under ASC 842 subsequent to the adoption. Refer to Recently Adopted Accounting Pronouncements in this Note 2 for significant changes that resulted from the adoption effective January 1, 2019. The Company, as lessee, recognizes a right-of-use asset and a lease liability on the Company's condensed consolidated balance sheet for its community, office, and equipment leases. As of the commencement date of a lease, a lease liability and corresponding right-of-use asset is established on the Company's condensed consolidated balance sheet at the present value of future minimum lease payments. The Company's community leases generally contain fixed annual rent escalators or annual rent escalators based on an index, such as the consumer price index. The future minimum lease payments recognized on the condensed consolidated balance sheet include fixed payments (including in-substance fixed payments) and variable payments estimated utilizing the index or rate on the lease commencement date. The Company recognizes lease expense as incurred for additional variable payments. For the Company's leases that do not contain an implicit rate, the Company utilizes its estimated incremental borrowing rate in determining the present value of lease payments based on information available at commencement of the lease, which reflects the fixed rate

at which the Company could borrow a similar amount for the same term on a collateralized basis. Leases with an initial term of 12 months or less are not recorded on the Company's condensed consolidated balance sheet and instead are recognized as lease expense as incurred.

The Company, as lessee, makes a determination with respect to each of its community, office, and equipment leases as to whether each should be accounted for as an operating lease or financing lease in accordance with the provisions of ASC 842. The classification criteria is based on estimates regarding the fair value of the leased asset, minimum lease payments, effective cost of funds, the economic life of the asset, and certain other terms in the lease agreements.

For operating leases, payments made under operating lease arrangements are accounted for in the Company's condensed consolidated statements of operations as operating lease expense for actual rent paid, generally plus or minus a straight-line adjustment for estimated minimum lease escalators if applicable. The right-of-use asset is generally reduced each period by an amount equal to the difference between the operating lease expense and the amount of expense on the lease liability utilizing the effective interest method. Subsequent to the impairment of an operating lease right-of-use asset, the Company recognizes operating lease expense consisting of the reduction of the right-of-use asset on a straight-line basis over the remaining lease term and the amount of expense on the lease liability utilizing the effective interest method.

For financing leases, the Company recognizes interest expense on the lease liability utilizing the effective interest method. Additionally, the right-of-use asset is generally amortized to depreciation and amortization expense on a straight-line basis over the lease term unless the lease contains an option to purchase the underlying asset that the Company is reasonably certain to exercise in which case the asset is depreciated over the useful life of the underlying asset.

For transactions in which an owned community is sold and leased back from the buyer (sale-leaseback transactions), the Company recognizes an asset sale and lease accounting is applied if the Company has transferred control of the community. For such transactions, the Company removes the transferred assets from the condensed consolidated balance sheet and a gain or loss on the sale is recognized for the difference between the carrying value of the asset and the transaction price for the sale transaction. For sale-leaseback transactions in which the Company has not transferred control of the underlying asset, the Company does not recognize an asset sale or derecognize the underlying asset until control is transferred. For such transactions, the Company continues to depreciate the asset over its useful life. Additionally, the Company accounts for any amounts received as a financing lease liability and the Company recognizes interest expense on the financing lease liability utilizing the effective interest method with the interest expense limited to an amount that is not greater than the cash payments on the financing lease liability over the term of the lease.

Refer to the Company's revenue recognition policy for discussion of the accounting policy for residency agreements, which include the lease of an asset.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 amends the existing accounting principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability on the condensed consolidated balance sheet for most leases. Additionally, ASU 2016-02 makes targeted changes to lessor accounting, including changes to align certain aspects with the revenue recognition model, and requires enhanced disclosure of lease arrangements. In July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements* ("ASU 2018-11"). ASU 2018-11 provides entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, ASU 2018-11 provides entities with a practical expedient allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. The Company adopted these lease accounting standards effective January 1, 2019 and utilized the modified retrospective transition method with no adjustments to comparative periods presented. Additionally, the Company elected the package of practical expedients within ASU 2016-02 that allows an entity to not reassess, as of January 1, 2019, its prior conclusions on whether an existing contract contains a lease, lease classification for existing leases, and whether costs incurred for existing leases qualify as initial direct costs.

The Company's adoption of ASU 2016-02 resulted in the recognition of operating lease liabilities of \$1.6 billion and right-of-use assets of \$1.3 billion on the condensed consolidated balance sheet for its existing community, office, and equipment operating leases based on the remaining present value of the minimum lease payments as of January 1, 2019. The future minimum rental payments recognized on the condensed consolidated balance sheet included fixed payments (including in-substance fixed payments) and variable payments estimated utilizing the index or rate as of January 1, 2019. Such right-of-use asset amounts were recognized based upon the amount of the recognized lease liabilities, adjusted for accrued lease payments, intangible assets, and the recognition of right-of-use asset impairments. As of December 31, 2018, the Company had a net liability of \$231.4 million

recognized on its condensed consolidated balance sheet for accrued lease payments and intangible assets for operating leases. Additionally, \$58.1 million of previously unrecognized right-of-use asset impairments were recognized as a cumulative effect adjustment to beginning accumulated deficit as of January 1, 2019. As a result of the Company's election of the package of practical expedients within ASU 2016-02, there were no changes to the classification of the Company's existing operating, capital and financing leases as of January 1, 2019 and there were no changes to the amounts recognized on its condensed consolidated balance sheet for its existing capital and financing leases as of January 1, 2019.

Subsequent to the adoption of ASU 2016-02, lessors are required to separately recognize and measure the lease component of a contract with a customer utilizing the provisions of ASC 842 and the nonlease components utilizing the provisions of ASC 606. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand alone selling prices of the components. Additionally, certain components of a contract which were previously included within the lease element recognized in accordance with ASC 840, *Leases* ("ASC 840") prior to the adoption of ASU 2016-02 (such as common area maintenance services, other basic services, and executory costs) are recognized as nonlease components subject to the provisions of ASC 606 subsequent to the adoption of ASU 2016-02. However, entities are permitted to elect the practical expedient under ASU 2018-11 allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. Entities that elect to utilize the lease/nonlease component combination practical expedient under ASU 2018-11 upon initial application of ASC 842 are required to apply the practical expedient to all new and existing transactions within a class of underlying assets that qualify for the expedient as of the initial application date.

For the year ended December 31, 2018, the Company recognized revenue for housing services under independent living, assisted living, and memory care residency agreements in accordance with the provisions of the former lease accounting standard, ASC 840, and the Company recognized revenue for assistance with activities of daily living, memory care services, healthcare, and personalized health services under independent living, assisted living, and memory care residency agreements in accordance with the provisions of ASC 606.

Upon adoption of ASU 2016-02 and ASU 2018-11, the Company elected the lessor practical expedient within ASU 2018-11 and recognizes, measures, presents, and discloses the revenue for housing services under the Company's senior living residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC 842 and ASC 606.

The Company has concluded that the nonlease components of the Company's independent living, assisted living, and memory care residency agreements are the predominant component of the contract for the Company's existing agreements as of January 1, 2019. As a result of the Company's election of the package of practical expedients within ASU 2016-02, the Company continued to recognize revenue for existing contracts as of December 31, 2018 over the lease term. In addition, ASU 2016-02 has changed the definition of initial direct costs of a lease, with the initial direct costs that are initially deferred and recognized over the term of the lease limited to costs that are both incremental and direct. The Company concluded that the contract origination costs recognized on the condensed consolidated balance sheet as of December 31, 2018 were in excess of the initial direct costs that would have been deferred under the provisions of ASU 2016-02. As a result of the Company's election of the package of practical expedients, the contract origination costs recognized on the condensed consolidated balance sheet as of December 31, 2018 continued to be amortized during 2019 over the lease term. Additionally, the Company concluded that certain costs previously deferred upon new contract origination are recognized within facility operating expense in 2019 as incurred.

In addition to the previously unrecognized right-of-use asset impairment of \$58.1 million, the Company recognized cumulative effect adjustments to beginning accumulated deficit as of January 1, 2019 for the impact of the adoption of accounting standards by its equity method investees and the deferred tax impact of these adjustments. The recognition of the right-of-use assets and corresponding liabilities and the removal of the deferred tax position related to these leases as of December 31, 2018 had a \$0.3 million impact on the Company's net deferred tax position. A deferred tax asset of \$14.1 million and an increase to the valuation allowance of \$13.8 million was recorded against accumulated deficit reflecting the tax impact of the previously unrecognized right-of-use asset impairments.

The adoption of the new accounting standards resulted in the following adjustments to the Company's condensed consolidated balance sheet as of January 1, 2019:

(in millions)

Assets

Prepaid expenses and other current assets, net	\$	67
Property, plant and equipment and leasehold intangibles, net		(11)
Operating lease right-of-use assets		1,329
Investment in unconsolidated ventures		(2)
Other intangible assets, net		(5)
Other assets, net		(73)
Total assets	\$	1,305

Liabilities and Equity

Refundable fees and deferred revenue	\$	43
Operating lease obligations		1,618
Deferred liabilities		(257)
Other liabilities		(43)
Total liabilities		1,361
Total equity		(56)
Total liabilities and equity	\$	1,305

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss impairment methodology for credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivable and other financial instruments. ASU 2016-13 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company plans to adopt ASU 2016-13 effective January 1, 2020 and will recognize any cumulative effect of the adoption as an adjustment to beginning retained earnings with no adjustments to comparative periods presented. The Company does not expect the impact of the adoption of ASU 2016-13 to have a material effect to its consolidated financial statements and disclosures.

3. Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if securities or other instruments that are convertible into common stock were exercised or could result in the issuance of common stock. Potentially dilutive common stock equivalents include unvested restricted stock, unvested and vested restricted stock units, and convertible debt instruments and warrants.

During the three and nine months ended September 30, 2019 and 2018, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock, restricted stock units, and convertible debt instruments and warrants were antidilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock units excluded from the calculations of diluted net loss per share were 7.6 million and 6.2 million for the three months ended September 30, 2019 and 2018, respectively, and 7.6 million and 6.5 million for the nine months ended September 30, 2019 and 2018, respectively.

For the nine months ended September 30, 2018, the calculation of diluted weighted average shares excludes the impact of conversion of the principal amount of \$316.3 million of the Company's 2.75% convertible senior notes which were repaid in cash at their maturity on June 15, 2018. In addition, the calculation of diluted weighted average shares excludes the impact of the exercise of warrants to acquire the Company's common stock. As of September 30, 2018, the number of shares issuable upon exercise of the warrants was approximately 9.2 million. During the three months ended March 31, 2019, the option to exercise the remaining outstanding warrants expired unexercised.

4. Acquisitions, Dispositions and Other Significant Transactions

During the period from January 1, 2018 through September 30, 2019, the Company disposed of 30 owned communities. The Company also entered into agreements with Ventas, Inc. ("Ventas") and Welltower Inc. ("Welltower") and continued to execute on the transactions with HCP, Inc. (now known as Healthpeak Properties, Inc.) ("HCP") announced in 2017, which together restructured a significant portion of the Company's triple-net lease obligations with the Company's largest lessors. As a result of such transactions, as well as other lease expirations and terminations, the Company's triple-net lease obligations on 97 communities were terminated during the period from January 1, 2018 to September 30, 2019. During this period, the Company also sold its ownership interests in five unconsolidated ventures and acquired six communities that the Company previously leased or managed. As of September 30, 2019, the Company owned 336 communities, leased 335 communities, managed 17 communities on behalf of unconsolidated ventures, and managed 106 communities on behalf of third parties.

The following table sets forth, for the periods indicated, the amounts included within the Company's condensed consolidated financial statements for the 127 communities that it disposed through sales and lease terminations during the period from January 1, 2018 to September 30, 2019 through the respective disposition dates (of which 77 communities were disposed through sales and lease terminations during the period from July 1, 2018 to September 30, 2019):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Resident fees				
Independent Living	\$ —	\$ 14,099	\$ —	\$ 74,970
Assisted Living and Memory Care	103	45,496	12,385	223,763
CCRCs	—	4,401	—	15,106
Senior housing resident fees	<u>\$ 103</u>	<u>\$ 63,996</u>	<u>\$ 12,385</u>	<u>\$ 313,839</u>
Facility operating expense				
Independent Living	\$ —	\$ 8,588	\$ —	\$ 44,256
Assisted Living and Memory Care	103	35,182	10,204	160,606
CCRCs	—	3,785	—	13,701
Senior housing facility operating expense	<u>\$ 103</u>	<u>\$ 47,555</u>	<u>\$ 10,204</u>	<u>\$ 218,563</u>
Cash facility lease payments	\$ —	\$ 13,111	\$ 1,451	\$ 80,046

2019 Completed and Planned Dispositions of Owned Communities

During the nine months ended September 30, 2019, the Company completed the sale of eight owned communities for cash proceeds of \$44.1 million, net of transaction costs, and recognized a net gain on sale of assets of \$0.9 million for the nine months ended September 30, 2019.

As of September 30, 2019, six communities were classified as held for sale, resulting in \$60.4 million being recorded as assets held for sale and \$30.8 million of mortgage debt being included in the current portion of long-term debt within the condensed consolidated balance sheet with respect to such communities. The closings of the transactions are, or will be subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. There can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

2018 Completed Dispositions of Owned Communities

During the year ended December 31, 2018, the Company completed the sale of 22 owned communities for cash proceeds of \$380.7 million, net of transaction costs, and recognized a net gain on sale of assets of \$188.6 million. The Company utilized a portion of the cash proceeds from the asset sales to repay approximately \$174.0 million of associated mortgage debt and debt prepayment penalties. These dispositions included the sale of three communities during the three months ended March 31, 2018 for which the Company received cash proceeds of \$12.8 million, net of transaction costs, and recognized a net gain on sale of assets of \$1.9 million.

2018 Welltower Lease and RIDEA Venture Restructuring

In June 2018, the Company entered into definitive agreements with Welltower to terminate its triple-net lease obligations on 37 communities and to sell the Company's 20% equity interest in its Welltower RIDEA venture to Welltower. During the three months ended June 30, 2018, the Company paid Welltower an aggregate lease termination fee of \$58.0 million, recognized a \$22.6 million loss on lease termination, received net proceeds of \$33.5 million for the sale of equity interest, and recognized a \$14.7 million gain on sale of the RIDEA venture. The Company also elected not to renew two master leases with Welltower which matured on September 30, 2018 (11 communities). In addition, the parties separately agreed to allow the Company to terminate leases with respect to, and to remove from the remaining Welltower leased portfolio, a number of communities with annual aggregate base rent up to \$5.0 million upon Welltower's sale of such communities, and the Company would receive a corresponding 6.25% rent credit on Welltower's disposition proceeds.

2018 Ventas Lease Portfolio Restructuring

In April 2018, the Company and Ventas entered into a Master Lease and Security Agreement (the "Ventas Master Lease") in connection with the restructuring of a portfolio of 128 communities that it leased from Ventas. The Company estimated the fair value of each of the elements of the restructuring transactions. The fair value of the future lease payments was based upon historical and forecasted community cash flows and market data, including an implied management fee rate of 5% of revenue and a market supported lease coverage ratio (Level 3 inputs). The Company recognized a \$125.7 million non-cash loss on lease modification during the three months ended June 30, 2018, primarily for the extensions of the triple-net lease obligations for communities with lease terms that were unfavorable to the Company given current market conditions on the amendment date in exchange for modifications to the change of control provisions and financial covenant provisions of the community leases.

Pursuant to the Ventas Master Lease, the Company has exercised its right to direct Ventas to market for sale 28 communities. Ventas is obligated to use commercially reasonable, diligent efforts to sell such communities on or before December 31, 2020 (subject to extension for regulatory purposes); provided, that Ventas' obligation to sell any such community is subject to Ventas' receiving a purchase price in excess of a mutually agreed upon minimum sale price and to certain other customary closing conditions. Upon any such sale, such communities will be removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease will be reduced by the amount of the net sale proceeds received by Ventas multiplied by 6.25%. During the three months ended June 30, 2019, five of such communities were sold by Ventas and removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease was prospectively reduced by \$1.5 million.

2017 HCP Master Lease Transaction and RIDEA Ventures Restructuring

Pursuant to transactions the Company entered into with HCP in November 2017, during the three months ended June 30, 2018, the Company acquired five communities from HCP, two of which the Company formerly leased, for an aggregate purchase price of \$242.8 million, and during the three months ended March 31, 2018, the Company acquired one community for an aggregate purchase price of \$32.1 million.

During the year ended December 31, 2018, leases with respect to 33 communities were terminated, and such communities were removed from the Company's master lease with HCP. Sixteen of such community leases were terminated in the nine months ended September 30, 2018. During the three and nine months ended September 30, 2018, the Company derecognized \$60.9 million and \$147.8 million, respectively, of the carrying value of the assets under financing leases and \$67.3 million and \$160.8 million, respectively, carrying value of financing lease obligations and recognized a \$6.1 million and \$12.6 million, respectively, non-cash gain on sale of assets for six communities which were previously subject to sale-leaseback transactions. Additionally, the Company recognized a \$0.1 million non-cash loss and a \$1.8 million non-cash gain on lease termination for seven communities under operating and capital leases during the three and nine months ended September 30, 2018, respectively.

During the three months ended March 31, 2018, HCP acquired the Company's 10% ownership interest in a RIDEA venture with HCP for \$62.3 million, and the Company recognized a \$41.7 million gain on sale.

Management agreements for 35 communities with former unconsolidated ventures with HCP have been terminated by HCP since November of 2017. The Company has recognized a \$9.3 million non-cash management contract termination gain, of which \$0.6 million was recognized during the three months ended September 30, 2018 and \$0.8 million and \$5.6 million were recognized during the nine months ended September 30, 2019 and 2018, respectively.

5. Fair Value Measurements

Marketable Securities

As of September 30, 2019, marketable securities of \$49.8 million are stated at fair value based on valuation provided by third-party pricing services and are classified within Level 2 of the valuation hierarchy.

Debt

The Company had outstanding long-term debt with a carrying value of approximately \$3.6 billion as of both September 30, 2019 and December 31, 2018. Fair value of the long-term debt approximates carrying value in all periods presented. The Company's fair value of long-term debt disclosure is classified within Level 2 of the valuation hierarchy.

Goodwill and Asset Impairment Expense

The following is a summary of goodwill and asset impairment expense.

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Goodwill	\$ —	\$ —	\$ —	\$ 351.7
Property, plant and equipment and leasehold intangibles, net	0.8	2.5	2.0	50.2
Investment in unconsolidated ventures	—	—	—	33.4
Other intangible assets, net	—	—	2.6	1.7
Assets held for sale	1.3	3.0	1.3	15.0
Other assets, net	\$ —	\$ —	\$ 0.4	—
Goodwill and asset impairment	<u>\$ 2.1</u>	<u>\$ 5.5</u>	<u>\$ 6.3</u>	<u>\$ 452.0</u>

Goodwill

During the three months ended March 31, 2018, the Company identified qualitative indicators of impairment, including a significant decline in the Company's stock price and market capitalization for a sustained period during the three months ended March 31, 2018. Based upon the Company's qualitative assessment, the Company performed a quantitative goodwill impairment test as of March 31, 2018, which included a comparison of the estimated fair value of each reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. Based on the results of the Company's quantitative goodwill impairment test, the Company recorded a non-cash impairment charge of \$351.7 million to goodwill and asset impairment within the Assisted Living and Memory Care operating segment for the three months ended March 31, 2018. See Note 2 for more information regarding the Company's policy for goodwill.

Property, Plant and Equipment and Leasehold Intangibles

During the three and nine months ended September 30, 2018, the Company evaluated property, plant and equipment and leasehold intangibles for impairment and identified properties with a carrying value of the assets in excess of the estimated future undiscounted net cash flows expected to be generated by the assets primarily due to an expectation that certain communities will be disposed of prior to their previously intended holding periods. As a result of this change in intent, the Company compared the estimated fair value of the assets to their carrying value for these identified properties and recorded an impairment charge for the excess of carrying value over estimated fair value. The estimates of fair values of the property, plant and equipment of these communities were determined based on valuations provided by third-party pricing services and are classified within Level 3 of the valuation hierarchy. The Company recorded property, plant and equipment and leasehold intangibles non-cash impairment charges in its operating results of \$2.5 million and \$50.2 million for the three and nine months ended September 30, 2018, respectively, primarily within the Assisted Living and Memory Care segment.

Investment in Unconsolidated Ventures

The Company evaluates realization of its investment in ventures accounted for using the equity method if circumstances indicate that the Company's investment is other than temporarily impaired. During the three months ended March 31, 2018, the Company

recorded non-cash impairment charges related to investments in unconsolidated ventures of \$33.4 million. The impairment charges reflect the amount by which the carrying values of the investments exceeded their estimated fair value (using Level 3 inputs).

Right-of-Use Assets

The Company's adoption of ASU 2016-02 resulted in the recognition of the right-of-use assets for the operating leases for 25 communities to be recognized on the condensed consolidated balance sheet as of January 1, 2019 at the estimated fair value of \$56.6 million and \$58.1 million of previously unrecognized right-of-use asset impairments were recognized as a cumulative effect adjustment to accumulated deficit as the Company determined that the long-lived assets of such communities were not recoverable as of such date. The fair value of the right-of-use assets was estimated utilizing a discounted cash flow approach based upon historical and projected community cash flows and market data, including management fees and a market supported lease coverage ratio (Level 3 inputs). The Company corroborated the estimated management fee rates and lease coverage ratios used in these estimates with lease coverage ratios observable from recent market transactions. The estimated future cash flows were discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. See Note 2 for more information regarding the recognition of right-of-use assets for operating leases upon the adoption of ASU 2016-02.

6. Stock-Based Compensation

Grants of restricted shares under the Company's 2014 Omnibus Incentive Plan were as follows:

<i>(in thousands, except for per share amounts)</i>	Shares Granted	Weighted Average Grant Date Fair Value	Total Value
Three months ended March 31, 2019	4,047	\$ 7.87	\$ 31,857
Three months ended June 30, 2019	142	\$ 6.51	\$ 922
Three months ended September 30, 2019	136	\$ 7.55	\$ 1,028

7. Goodwill and Other Intangible Assets, Net

The Company's Independent Living and Health Care Services segments had a carrying value of goodwill of \$27.3 million and \$126.8 million, respectively, as of both September 30, 2019 and December 31, 2018.

Goodwill is tested for impairment annually with a test date of October 1 and sooner if indicators of impairment are present. The Company determined no impairment was necessary for the three and nine months ended September 30, 2019. Factors the Company considers important in its analysis, which could trigger an impairment of such assets, include significant underperformance relative to historical or projected future operating results, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period and a decline in its market capitalization below net book value. A change in anticipated operating results or the other metrics indicated above could necessitate further analysis of potential impairment at an interval prior to the Company's annual measurement date. Refer to Note 5 for information on impairment expense for goodwill in 2018.

Other intangible assets as of September 30, 2019 and December 31, 2018 are summarized in the following tables:

<i>(in thousands)</i>	September 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net
Health care licenses	\$ 42,776	\$ —	\$ 42,776
Trade names	27,800	(27,800)	—
Total	<u>\$ 70,576</u>	<u>\$ (27,800)</u>	<u>\$ 42,776</u>

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net
<i>(in thousands)</i>			
Community purchase options	\$ 4,738	\$ —	\$ 4,738
Health care licenses	42,323	—	42,323
Trade names	27,800	(26,295)	1,505
Management contracts	9,610	(6,704)	2,906
Total	<u>\$ 84,471</u>	<u>\$ (32,999)</u>	<u>\$ 51,472</u>

Amortization expense related to definite-lived intangible assets for the three months ended September 30, 2019 and 2018 was \$0.2 million and \$0.6 million, respectively, and for the nine months ended September 30, 2019 and 2018 was \$1.8 million and \$2.3 million, respectively. The Company recognized \$2.6 million of non-cash impairment charges on management contract intangible assets during the nine months ended September 30, 2019 for the termination of management contracts.

8. Property, Plant and Equipment and Leasehold Intangibles, Net

As of September 30, 2019 and December 31, 2018, net property, plant and equipment and leasehold intangibles, which include assets under financing leases, consisted of the following:

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
Land	\$ 454,790	\$ 455,623
Buildings and improvements	4,812,422	4,749,877
Furniture and equipment	849,573	805,190
Resident and leasehold operating intangibles	319,049	477,827
Construction in progress	80,788	57,636
Assets under financing leases and leasehold improvements	1,832,524	1,776,649
Property, plant and equipment and leasehold intangibles	<u>8,349,146</u>	<u>8,322,802</u>
Accumulated depreciation and amortization	<u>(3,163,465)</u>	<u>(3,047,375)</u>
Property, plant and equipment and leasehold intangibles, net	<u>\$ 5,185,681</u>	<u>\$ 5,275,427</u>

Assets under financing leases and leasehold improvements includes \$0.6 billion and \$0.7 billion of financing lease right-of-use assets, net of accumulated amortization, as of September 30, 2019 and December 31, 2018, respectively. Refer to Note 10 for further information on the Company's financing leases.

The Company recognized depreciation and amortization expense on its property, plant and equipment and leasehold intangibles of \$93.3 million and \$110.4 million for the three months ended September 30, 2019 and 2018, respectively, and \$282.6 million and \$339.0 million for the nine months ended September 30, 2019 and 2018, respectively.

Long-lived assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives (or, in certain cases, the shorter of their estimated useful lives or the lease term) and are tested for impairment whenever indicators of impairment arise. Refer to Note 5 for additional information on impairment expense for property, plant and equipment and leasehold intangibles.

9. Debt

Long-term debt as of September 30, 2019 and December 31, 2018 consists of the following:

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
Mortgage notes payable due 2020 through 2047; weighted average interest rate of 4.77% for the nine months ended September 30, 2019, less debt discount and deferred financing costs of \$17.7 million and \$18.6 million as of September 30, 2019 and December 31, 2018, respectively (weighted average interest rate of 4.75% in 2018)	\$ 3,513,386	\$ 3,579,931
Other notes payable, weighted average interest rate of 5.79% for the nine months ended September 30, 2019 (weighted average interest rate of 5.85% in 2018) and maturity dates ranging from 2020 to 2021	58,835	60,249
Total long-term debt	3,572,221	3,640,180
Current portion	343,615	294,426
Total long-term debt, less current portion	<u>\$ 3,228,606</u>	<u>\$ 3,345,754</u>

As of September 30, 2019 and December 31, 2018, the current portion of long-term debt within the Company's condensed consolidated financial statements includes \$30.8 million and \$31.2 million, respectively, of mortgage notes payable secured by assets held for sale. This debt is expected to be repaid with the proceeds from the sales. Refer to Note 4 for more information about the Company's assets held for sale.

Credit Facilities

On December 5, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement with Capital One, National Association, as administrative agent, lender and swingline lender and the other lenders from time to time parties thereto (the "Amended Agreement"). The Amended Agreement amended and restated in its entirety the Company's Fourth Amended and Restated Credit Agreement dated as of December 19, 2014 (the "Original Agreement"). The Amended Agreement provides commitments for a \$250 million revolving credit facility with a \$60 million sublimit for letters of credit and a \$50 million swingline feature. The Company has a one-time right under the Amended Agreement to increase commitments on the revolving credit facility by an additional \$100 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The Amended Agreement provides the Company a one-time right to reduce the amount of the revolving credit commitments, and the Company may terminate the revolving credit facility at any time, in each case without payment of a premium or penalty. The Amended Agreement extended the maturity date of the Original Agreement from January 3, 2020 to January 3, 2024 and decreased the interest rate payable on drawn amounts. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the Amended Agreement reduced the applicable margin from a range of 2.50% to 3.50% to a range of 2.25% to 3.25%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.25% margin at utilization equal to or lower than 35%, a 2.75% margin at utilization greater than 35% but less than or equal to 50%, and a 3.25% margin at utilization greater than 50%. A quarterly commitment fee continues to be payable on the unused portion of the facility at 0.25% per annum when the outstanding amount of obligations (including revolving credit and swingline loans and letter of credit obligations) is greater than or equal to 50% of the revolving credit commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the revolving credit commitment amount.

The credit facility is secured by first priority mortgages on certain of the Company's communities. In addition, the Amended Agreement permits the Company to pledge the equity interests in subsidiaries that own other communities and grant negative pledges in connection therewith (rather than mortgaging such communities), provided that not more than 10% of the borrowing base may result from communities subject to negative pledges. Availability under the revolving credit facility will vary from time to time based on borrowing base calculations related to the appraised value and performance of the communities securing the credit facility and the Company's consolidated fixed charge coverage ratio. During the third quarter of 2019, the Company added three communities to the borrowing base and entered into an amendment to the Amended Agreement that provides for availability calculations to be made at additional consolidated fixed charge coverage ratio thresholds.

The Amended Agreement contains typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. Amounts drawn on the credit facility may be used for general corporate purposes.

As of September 30, 2019, no borrowings were outstanding on the revolving credit facility, \$41.2 million of letters of credit were outstanding, and the revolving credit facility had \$164.2 million of availability. The Company also had a separate unsecured letter

of credit facility of up to \$47.5 million as of September 30, 2019. Letters of credit totaling \$47.5 million had been issued under the separate facility as of that date.

2019 Financings

On May 7, 2019, the Company obtained \$111.1 million of debt secured by the non-recourse first mortgages on 14 communities. Sixty percent of the principal amount bears interest at a fixed rate of 4.52%, and the remaining forty percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 223 basis points. The debt matures in June 2029. The \$111.1 million of proceeds from the financing along with cash on hand were utilized to repay \$155.5 million of outstanding mortgage debt maturing in 2019.

On August 29, 2019, the Company obtained \$160.3 million of debt secured by the non-recourse first mortgages on five communities. Seventy-five percent of the principal amount bears interest at a fixed rate of 3.35%, and the remaining twenty-five percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 217 basis points. The debt matures in September 2029. The \$160.3 million of proceeds from the financing were utilized to repay \$139.2 million of outstanding mortgage debt maturing in 2020 and 2023.

Financial Covenants

Certain of the Company's debt documents contain restrictions and financial covenants, such as those requiring the Company to maintain prescribed minimum net worth and stockholders' equity levels and debt service ratios, and requiring the Company not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community, and/or entity basis. In addition, the Company's debt documents generally contain non-financial covenants, such as those requiring the Company to comply with Medicare or Medicaid provider requirements.

The Company's failure to comply with applicable covenants could constitute an event of default under the applicable debt documents. Many of the Company's debt documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors). Furthermore, the Company's debt is secured by its communities and, in certain cases, a guaranty by the Company and/or one or more of its subsidiaries.

As of September 30, 2019, the Company is in compliance with the financial covenants of its debt agreements.

10. Leases

As of September 30, 2019, the Company operated 335 communities under long-term leases (244 operating leases and 91 financing leases). The substantial majority of the Company's lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. The Company typically guarantees the performance and lease payment obligations of its subsidiary lessees under the master leases. Due to the nature of such master leases, it is difficult to restructure the composition of such leased portfolios or economic terms of the leases without the consent of the applicable landlord. In addition, an event of default related to an individual property or limited number of properties within a master lease portfolio may result in a default on the entire master lease portfolio.

The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or based upon changes in the consumer price index or the leased property revenue. The Company is responsible for all operating costs, including repairs, property taxes, and insurance. As of September 30, 2019, the weighted-average remaining lease term of the Company's operating and financing leases was 7.1 years and 8.5 years, respectively. The leases generally provide for renewal or extension options from 5 to 20 years and in some instances, purchase options.

The community leases contain other customary terms, which may include assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions and financial covenants, such as those requiring the Company to maintain prescribed minimum net worth and stockholders' equity levels and lease coverage ratios, and not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. In addition, the Company's lease documents generally contain non-financial covenants, such as those requiring the Company to comply with Medicare or Medicaid provider requirements.

The Company's failure to comply with applicable covenants could constitute an event of default under the applicable lease documents. Many of the Company's debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors).

Certain leases contain cure provisions, which generally allow the Company to post an additional lease security deposit if the required covenant is not met. Furthermore, the Company's leases are secured by its communities and, in certain cases, a guaranty by the Company and/or one or more of its subsidiaries.

As of September 30, 2019, the Company is in compliance with the financial covenants of its long-term leases.

A summary of operating and financing lease expense (including the respective presentation on the condensed consolidated statements of operations) and cash flows from leasing transactions is as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
<i>Operating Leases (in thousands)</i>		
Facility operating expense	\$ 4,532	\$ 13,761
Facility lease expense	67,253	203,610
Operating lease expense	71,785	217,371
Operating lease expense adjustment	4,814	13,626
Changes in operating lease assets and liabilities for lessor capital expenditure reimbursements	(11,043)	(12,043)
Operating cash flows from operating leases	\$ 65,556	\$ 218,954
Non-cash recognition of right-of-use assets obtained in exchange for new operating lease obligations	\$ 22,375	\$ 26,356
<i>Financing Leases (in thousands)</i>		
Depreciation and amortization	\$ 11,675	\$ 35,030
Interest expense: financing lease obligations	16,567	49,959
Financing lease expense	\$ 28,242	\$ 84,989
Operating cash flows from financing leases	\$ 16,567	\$ 49,959
Financing cash flows from financing leases	5,549	16,502
Total cash flows from financing leases	\$ 22,116	\$ 66,461

As of September 30, 2019, the weighted-average discount rate of the Company's operating and financing leases was 8.6% and 7.8%, respectively. As the Company's community leases do not contain an implicit rate, the Company utilized its incremental borrowing rate based on information available on January 1, 2019 to determine the present value of lease payments for operating leases that commenced prior to that date.

The aggregate amounts of future minimum lease payments, including community, office, and equipment leases recognized on the condensed consolidated balance sheet as of September 30, 2019 are as follows (in thousands):

Year Ending December 31,	Operating Leases	Financing Leases
2019 (three months)	\$ 77,495	\$ 22,052
2020	312,861	89,090
2021	298,025	90,330
2022	294,696	91,719
2023	290,698	93,190
Thereafter	806,856	429,663
Total lease payments	2,080,631	816,044
Purchase option liability and non-cash gain on future sale of property	—	575,791
Imputed interest and variable lease payments	(572,238)	(533,798)
Total lease obligations	<u>\$ 1,508,393</u>	<u>\$ 858,037</u>

The aggregate amounts of future minimum operating lease payments, including community, office, and equipment leases not recognized on the condensed consolidated balance sheet under ASC 840 as of December 31, 2018 are as follows (in thousands):

Year Ending December 31,	Operating Leases
2019	\$ 310,340
2020	307,493
2021	290,661
2022	291,114
2023	285,723
Thereafter	786,647
Total lease payments	<u>\$ 2,271,978</u>

11. Litigation

The Company has been and is currently involved in litigation and claims, including putative class action claims from time to time, incidental to the conduct of its business which are generally comparable to other companies in the senior living and healthcare industries. Certain claims and lawsuits allege large damage amounts and may require significant costs to defend and resolve. As a result, the Company maintains general liability and professional liability insurance policies in amounts and with coverage and deductibles the Company believes are adequate, based on the nature and risks of its business, historical experience and industry standards. The Company's current policies provide for deductibles for each claim. Accordingly, the Company is, in effect, self-insured for claims that are less than the deductible amounts and for claims or portions of claims that are not covered by such policies.

Similarly, the senior living and healthcare industries are continuously subject to scrutiny by governmental regulators, which could result in reviews, audits, investigations, enforcement activities or litigation related to regulatory compliance matters. In addition, as a result of the Company's participation in the Medicare and Medicaid programs, the Company is subject to various governmental reviews, audits and investigations, including but not limited to audits under various government programs, such as the Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), and Unified Program Integrity Contractors (UPIC) programs. The costs to respond to and defend such reviews, audits, and investigations may be significant, and an adverse determination could result in citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, termination of participation in Medicare and Medicaid programs, and/or damage to the Company's business reputation.

12. Supplemental Disclosure of Cash Flow Information

	Nine Months Ended September 30,	
	2019	2018
<i>(in thousands)</i>		
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 185,722	\$ 198,133
Income taxes paid, net of refunds	1,909	1,542
Capital expenditures, net of related payables		
Capital expenditures - non-development, net	\$ 180,187	\$ 130,692
Capital expenditures - development, net	18,677	20,084
Capital expenditures - non-development - reimbursable	12,043	1,764
Capital expenditures - development - reimbursable	—	1,709
Trade accounts payable	(4,522)	15,100
Net cash paid	<u>\$ 206,385</u>	<u>\$ 169,349</u>
Acquisition of assets, net of related payables and cash received:		
Property, plant and equipment and leasehold intangibles, net	\$ —	\$ 237,563
Other intangible assets, net	453	(4,345)
Financing lease obligations	—	36,120
Other liabilities	—	2,433
Net cash paid	<u>\$ 453</u>	<u>\$ 271,771</u>
Proceeds from sale of assets, net:		
Prepaid expenses and other assets, net	\$ (5,298)	\$ (3,006)
Assets held for sale	(41,882)	(18,758)
Property, plant and equipment and leasehold intangibles, net	(647)	(91,778)
Investments in unconsolidated ventures	(156)	(58,179)
Financing lease obligations	—	93,514
Refundable fees and deferred revenue	—	8,345
Other liabilities	(2,724)	2,690
Loss (gain) on sale of assets, net	(2,723)	(64,740)
Net cash received	<u>\$ (53,430)</u>	<u>\$ (131,912)</u>
Lease termination and modification, net:		
Prepaid expenses and other assets, net	\$ —	\$ (2,040)
Property, plant and equipment and leasehold intangibles, net	—	(81,320)
Financing lease obligations	—	58,099
Deferred liabilities	—	67,950
Loss (gain) on sale of assets, net	—	(5,761)
Loss (gain) on facility lease termination and modification, net	—	22,260
Net cash paid ⁽¹⁾	<u>\$ —</u>	<u>\$ 59,188</u>

Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:

Assets designated as held for sale:		
Prepaid expenses and other assets, net	\$ (5)	\$ (281)
Assets held for sale	9,169	162,157
Property, plant and equipment and leasehold intangibles, net	(9,164)	(161,876)
Net	<u>\$ —</u>	<u>\$ —</u>

Lease termination and modification, net:		
Prepaid expenses and other assets, net	\$ (648)	\$ (4,783)
Property, plant and equipment and leasehold intangibles, net	(1,666)	(106,264)
Financing lease obligations	—	112,267
Operating lease right-of-use assets	(8,644)	—
Operating lease obligations	9,289	—
Deferred liabilities	—	(122,304)
Other liabilities	(337)	625
Loss (gain) on sale of assets, net	—	(6,085)
Loss (gain) on facility lease termination and modification, net	2,006	126,544
Net	<u>\$ —</u>	<u>\$ —</u>

- (1) The net cash paid to terminate community leases is presented within the condensed consolidated statement of cash flows based upon the lease classification of the terminated leases. Net cash paid of \$46.6 million for the termination of operating leases is presented within net cash provided by (used in) operating activities and net cash paid of \$12.5 million for the termination of capital leases is presented within net cash provided by (used in) financing activities for the nine months ended September 30, 2018.

During the three months ended June 30, 2019, the Company and its joint venture partner contributed cash in an aggregate amount of \$13.3 million to a consolidated joint venture which owns three senior housing communities. The Company obtained a \$6.6 million promissory note receivable from its joint venture partner secured by a 50% equity interest in the joint venture in a non-cash exchange for the Company funding the \$13.3 million aggregate contribution in cash.

	Nine Months Ended September 30,	
	2019	2018
<i>(in thousands)</i>		
Notes receivable:		
Other assets, net	\$ 6,566	\$ —
Noncontrolling interest	(6,566)	—
Net	<u>\$ —</u>	<u>\$ —</u>

Refer to Note 2 for a schedule of the non-cash adjustments to the Company's condensed consolidated balance sheet as of January 1, 2019 as a result of the adoption of new accounting standards and Note 10 for a schedule of the non-cash recognition of right-of-use assets obtained in exchange for new operating lease obligations.

Restricted cash consists principally of escrow deposits for real estate taxes, property insurance, and capital expenditures required by certain lenders under mortgage debt agreements and deposits as security for self-insured retention risk under workers' compensation programs and property insurance programs. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sums to the total of the same such amounts shown in the condensed consolidated statements of cash flows.

<i>(in thousands)</i>	September 30, 2019	December 31, 2018
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 241,391	\$ 398,267
Restricted cash	33,305	27,683
Long-term restricted cash	40,663	24,268
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 315,359</u>	<u>\$ 450,218</u>

13. Income Taxes

The difference between the Company's effective tax rate for the three and nine months ended September 30, 2019 and September 30, 2018 was primarily due to the non-deductible impairment of goodwill that occurred in the three months ended March 31, 2018

and the adjustment from stock-based compensation, which was greater in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2019.

The Company recorded an aggregate deferred federal, state, and local tax benefit of \$19.4 million and \$39.0 million for the three and nine months ended September 30, 2019, respectively. The benefit includes \$19.4 million and \$40.7 million as a result of the operating losses for the three and nine months ended September 30, 2019, respectively. The benefit was reduced by a \$1.7 million reduction in the deferred tax asset related to employee stock compensation for the nine months ended September 30, 2019. The benefit for the three and nine months ended September 30, 2019 is offset by increases in the valuation allowance of \$17.8 million and \$37.7 million, respectively. The change in the valuation allowance for the three and nine months ended September 30, 2019 is the result of the anticipated reversal of future tax liabilities offset by future tax deductions. The Company recorded an aggregate deferred federal, state, and local tax benefit of \$15.4 million and \$71.3 million as a result of the operating loss for the three and nine months ended September 30, 2018, respectively. The benefit for the three months ended September 30, 2018 includes a benefit from a decrease in the valuation allowance of \$2.7 million. The benefit for the nine months ended September 30, 2018 was offset by an increase in the valuation allowance of \$52.2 million.

The Company evaluates its deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. The Company's valuation allowance as of September 30, 2019 and December 31, 2018 was \$387.9 million and \$336.4 million, respectively.

The increase in the valuation allowance during the nine months ended September 30, 2019 is comprised of multiple components. The increase includes \$13.8 million resulting from the adoption of ASC 842 and the related addition of future timing differences recorded in the three months ended March 31, 2019. An additional \$39.4 million of allowance was established against the current operating loss incurred during the nine months ended September 30, 2019. Offsetting the increases was a decrease of \$1.7 million of allowance as a result of removal of future timing differences related to employee stock compensation recorded in the three months ended March 31, 2019.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("Tax Act") into law. The Tax Act limits the annual deductibility of a corporation's net interest expense unless it elects to be exempt from such deductibility limitation under the real property trade or business exception. The Company elected the real property trade or business exception with the 2018 tax return. As such, the Company is required to apply the alternative depreciation system ("ADS") to all current and future residential real property and qualified improvement property assets. This change impacts the current and future tax depreciation deductions and impacted the Company's valuation allowance accordingly. Additional information that may affect the Company's provisional amounts would include further clarification and guidance on how the Internal Revenue Service will implement tax reform and further clarification and guidance on how state taxing authorities will implement tax reform and the related effect on the Company's state and local income tax returns, state and local net operating losses, and corresponding valuation allowances.

The Company recorded interest charges related to its tax contingency reserve for cash tax positions for the three and nine months ended September 30, 2019 and 2018 which are included in income tax expense or benefit for the period. As of September 30, 2019, tax returns for years 2014 through 2018 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

14. Revenue

Disaggregation of Revenue

The Company disaggregates its revenue from contracts with customers by payor source, as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. See details on a reportable segment basis in the tables below.

	Three Months Ended September 30, 2019				
	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
<i>(in thousands)</i>					
Private pay	\$ 136,274	\$ 435,367	\$ 70,353	\$ 171	\$ 642,165
Government reimbursement	600	17,107	19,931	89,157	126,795
Other third-party payor programs	—	—	9,820	22,457	32,277
Total resident fee revenue	\$ 136,874	\$ 452,474	\$ 100,104	\$ 111,785	\$ 801,237

Three Months Ended September 30, 2018

<i>(in thousands)</i>	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
Private pay	\$ 143,963	\$ 464,719	\$ 73,567	\$ 159	\$ 682,408
Government reimbursement	668	18,406	20,901	89,100	129,075
Other third-party payor programs	—	—	9,679	19,017	28,696
Total resident fee revenue	<u>\$ 144,631</u>	<u>\$ 483,125</u>	<u>\$ 104,147</u>	<u>\$ 108,276</u>	<u>\$ 840,179</u>

Nine Months Ended September 30, 2019

<i>(in thousands)</i>	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
Private pay	\$ 406,667	\$ 1,310,867	\$ 212,978	\$ 554	\$ 1,931,066
Government reimbursement	1,852	50,358	61,614	269,428	383,252
Other third-party payor programs	—	—	30,492	67,769	98,261
Total resident fee revenue	<u>\$ 408,519</u>	<u>\$ 1,361,225</u>	<u>\$ 305,084</u>	<u>\$ 337,751</u>	<u>\$ 2,412,579</u>

Nine Months Ended September 30, 2018

<i>(in thousands)</i>	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
Private pay	\$ 459,875	\$ 1,482,789	\$ 217,680	\$ 585	\$ 2,160,929
Government reimbursement	2,446	54,643	65,986	272,332	395,407
Other third-party payor programs	—	—	30,346	55,732	86,078
Total resident fee revenue	<u>\$ 462,321</u>	<u>\$ 1,537,432</u>	<u>\$ 314,012</u>	<u>\$ 328,649</u>	<u>\$ 2,642,414</u>

The Company has not further disaggregated management fee revenues and revenue for reimbursed costs incurred on behalf of managed communities as the economic factors affecting the nature, timing, amount, and uncertainty of revenue and cash flows do not significantly vary within each respective revenue category.

Contract Balances

Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance under the Company's independent living, assisted living, and memory care residency agreements. Resident fee revenue for standalone or certain health care services is generally billed monthly in arrears. Additionally, non-refundable community fees are generally billed and collected in advance or upon move-in of a resident under the Company's independent living, assisted living, and memory care residency agreements. Amounts of revenue that are collected from residents in advance are recognized as deferred revenue until the performance obligations are satisfied. The Company had total deferred revenue (included within refundable fees and deferred revenue, deferred liabilities, and other liabilities within the condensed consolidated balance sheets) of \$75.8 million and \$106.4 million, including \$31.6 million and \$50.6 million of monthly resident fees billed and received in advance, as of September 30, 2019 and December 31, 2018, respectively. For the nine months ended September 30, 2019 and 2018, the Company recognized \$83.7 million and \$76.2 million, respectively, of revenue that was included in the deferred revenue balance as of January 1, 2019 and 2018. The Company applies the practical expedient in ASC 606-10-50-14 and does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

15. Segment Information

The Company has five reportable segments: Independent Living; Assisted Living and Memory Care; CCRCs; Health Care Services; and Management Services. Operating segments are defined as components of an enterprise that engage in business activities from which it may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

Independent Living. The Company's Independent Living segment includes owned or leased communities that are primarily designed for middle to upper income seniors who desire an upscale residential environment providing the highest quality of service. The majority of the Company's independent living communities consist of both independent and assisted living units in a single community, which allows residents to age-in-place by providing them with a continuum of senior independent and assisted living services.

Assisted Living and Memory Care. The Company's Assisted Living and Memory Care segment includes owned or leased communities that offer housing and 24-hour assistance with activities of daily life to mid-acuity frail and elderly residents. Assisted living and memory care communities include both freestanding, multi-story communities and freestanding, single story communities. The Company also provides memory care services at freestanding memory care communities that are specially designed for residents with Alzheimer's and other dementias.

CCRCs. The Company's CCRCs segment includes large owned or leased communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have independent living, assisted living and skilled nursing available on one campus or within the immediate market, and some also include memory care and Alzheimer's services.

Health Care Services. The Company's Health Care Services segment includes the home health, hospice, and outpatient therapy services, as well as education and wellness programs, provided to residents of many of the Company's communities and to seniors living outside of the Company's communities. The Health Care Services segment does not include the skilled nursing and inpatient healthcare services provided in the Company's skilled nursing units, which are included in the Company's CCRCs segment.

Management Services. The Company's Management Services segment includes communities operated by the Company pursuant to management agreements. In some of the cases, the controlling financial interest in the community is held by third parties and, in other cases, the community is owned in a venture structure in which the Company has an ownership interest. Under the management agreements for these communities, the Company receives management fees as well as reimbursed expenses, which represent the reimbursement of expenses it incurs on behalf of the owners.

The accounting policies of the Company's reportable segments are the same as those described in the summary of significant accounting policies in Note 2.

The following table sets forth selected segment financial and operating data:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue:				
Independent Living ⁽¹⁾	\$ 136,874	\$ 144,631	\$ 408,519	\$ 462,321
Assisted Living and Memory Care ⁽¹⁾	452,474	483,125	1,361,225	1,537,432
CCRCs ⁽¹⁾	100,104	104,147	305,084	314,012
Health Care Services ⁽¹⁾	111,785	108,276	337,751	328,649
Management Services ⁽²⁾	207,712	279,883	657,871	820,082
Total revenue	<u>\$ 1,008,949</u>	<u>\$ 1,120,062</u>	<u>\$ 3,070,450</u>	<u>\$ 3,462,496</u>
Segment operating income: ⁽³⁾				
Independent Living	\$ 49,414	\$ 57,106	\$ 153,749	\$ 186,662
Assisted Living and Memory Care	116,856	144,701	390,699	490,976
CCRCs	14,472	21,809	53,956	70,291
Health Care Services	4,778	9,487	22,118	28,008
Management Services	13,564	18,528	44,756	54,280
Total segment operating income	<u>199,084</u>	<u>251,631</u>	<u>665,278</u>	<u>830,217</u>
General and administrative expense (including non-cash stock-based compensation expense)	56,409	58,796	170,296	203,138
Facility operating lease expense	67,253	70,392	203,610	232,752
Depreciation and amortization	93,550	110,980	284,462	341,351
Goodwill and asset impairment	2,094	5,500	6,254	451,966
Loss (gain) on facility lease termination and modification, net	—	2,337	2,006	148,804
Income (loss) from operations	<u>\$ (20,222)</u>	<u>\$ 3,626</u>	<u>\$ (1,350)</u>	<u>\$ (547,794)</u>

<i>(in thousands)</i>	As of	
	September 30, 2019	December 31, 2018
Total assets:		
Independent Living	\$ 1,461,087	\$ 1,104,774
Assisted Living and Memory Care	4,271,885	3,684,170
CCRCs	786,825	707,819
Health Care Services	273,943	254,950
Corporate and Management Services	580,463	715,547
Total assets	<u>\$ 7,374,203</u>	<u>\$ 6,467,260</u>

- (1) All revenue is earned from external third parties in the United States.
- (2) Management services segment revenue includes management fees and reimbursements of costs incurred on behalf of managed communities.
- (3) Segment operating income is defined as segment revenues less segment facility operating expense (excluding depreciation and amortization) and costs incurred on behalf of managed communities.

16. Subsequent Events

CCRC Venture and HCP Master Lease Transactions

On October 1, 2019, the Company entered into definitive agreements, including a Master Transactions and Cooperation Agreement (the “MTCA”) and an Equity Interest Purchase Agreement (the “Purchase Agreement”), providing for a multi-part transaction with HCP. The parties subsequently amended the agreements to include one additional entry fee CCRC community as part of the sale of the Company's interest in the CCRC Venture (rather than removing the CCRC from the CCRC Venture for joint marketing and sale). The components of the multi-part transaction include:

- *CCRC Venture Transaction.* Pursuant to the Purchase Agreement, HCP has agreed to acquire the Company's 51% ownership interest in its unconsolidated entry fee CCRC venture with HCP (the “CCRC Venture”), which will hold 14 entry fee CCRCs after giving effect to the internal restructuring described below, for a total purchase price equal to 51% of the equity value of the CCRC Venture, which is measured as \$1.06 billion less portfolio debt, subject to a net working capital adjustment. Pursuant to the Purchase Agreement, the parties have agreed to use commercially reasonable efforts to obtain certain governmental approvals and consummate an internal restructuring for the purposes of moving two entry fee CCRCs into a new unconsolidated venture on substantially the same terms as the CCRC Venture and to accommodate the sale of such two communities at a future date. Pursuant to the MTCA, the parties have agreed to terminate the Company's existing management agreements with 14 entry fee CCRCs, and HCP has agreed to pay the Company a \$100 million management agreement termination fee, immediately following the closing of the sale of the Company's ownership interest in the CCRC Venture. Upon termination of the management agreements, the Company will transition operations of the entry fee CCRCs to a new operator in accordance with the terms of the MTCA. The Company expects its cash proceeds from the sale of its ownership interest to be approximately \$291 million net of portfolio debt, subject to the net working capital adjustment. The disposition of the ownership interest in the CCRC Venture is anticipated to also result in the Company recording a gain on sale of assets for accounting purposes.
- *Master Lease Transactions.* Pursuant to the MTCA, the parties have agreed to amend and restate the Company's existing master lease with HCP pursuant to which the Company will continue to lease 25 communities from HCP, and the Company has agreed to pay \$405.5 million to acquire 18 communities that it currently leases from HCP and to reduce its annual rent under the amended and restated master lease, upon which time the 18 communities will be removed from the master lease. In addition, HCP has agreed to transition one leased community to a successor operator. With respect to the continuing 24 communities, the Company's amended and restated master lease with HCP will have an initial term to expire on December 31, 2027, subject to two extension options at the Company's election for ten years each, which must be exercised with respect to the entire pool of leased communities. Pursuant to the amended and restated master lease, the initial base rent for the 24 communities will be approximately \$41.8 million and is subject to an escalator of 2.4% per annum on April 1st of each year. Under the terms of the master lease, HCP has agreed to make available up to \$35 million for capital expenditures for a five-year period related to the 24 communities at an initial lease rate of 7.0%.

The MTCA and Purchase Agreement contain certain customary representations and warranties made by each party. The Company and HCP have also agreed to certain customary covenants, including that the parties will use commercially reasonable efforts to obtain certain required lender consents and governmental approvals, subject to certain limitations. The parties' obligations to consummate the transactions contemplated by the MTCA and Purchase Agreement are subject to the satisfaction or waiver of certain conditions, including completion of the internal restructuring, the prior or concurrent closing of the transactions contemplated by the Purchase Agreement, which shall occur no later than December 31, 2020, and the receipt of governmental approvals. The Purchase Agreement may be terminated by either party under certain circumstances, including a material breach by the other party of its obligations under the Purchase Agreement that is not cured within the applicable period or the failure of the closing of the Purchase Agreement to occur on or prior to December 31, 2020.

The Company expects to fund its acquisition of the 18 communities with the proceeds from the sale of its interest in the CCRC Venture and non-recourse mortgage financing on the acquired communities. The Company expects the sale of its 51% ownership interest in the CCRC Venture, the terminations of its management agreements on 14 entry fee CCRCs, and its acquisition of the 18 currently leased communities to occur in the first quarter of 2020, and the sales of the two entry fee CCRCs to occur over the next 12 to 18 months; however, there can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "could," "would," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "believe," "project," "predict," "continue," "plan," "target" or other similar words or expressions. These forward-looking statements are based on certain assumptions and expectations, and our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our assumptions or expectations will be attained and actual results and performance could differ materially from those projected. Factors which could have a material adverse effect on our operations and future prospects or which could cause events or circumstances to differ from the forward-looking statements include, but are not limited to, events which adversely affect the ability of seniors to afford resident fees and entrance fees, including downturns in the economy, national or local housing markets, consumer confidence or the equity markets and unemployment among family members; changes in reimbursement rates, methods or timing under governmental reimbursement programs including the Medicare and Medicaid programs; the impact of ongoing healthcare reform efforts; the effects of continued new senior housing construction and development, oversupply and increased competition; disruptions in the financial markets that affect our ability to obtain financing or extend or refinance debt as it matures and our financing costs; the risks associated with current global economic conditions and general economic factors such as inflation, the consumer price index, commodity costs, fuel and other energy costs, interest rates and tax rates; our ability to generate sufficient cash flow to cover required interest and long-term lease payments and to fund our planned capital projects; the effect of our indebtedness and long-term leases on our liquidity; the effect of our non-compliance with any of our debt or lease agreements (including the financial covenants contained therein), including the risk of lenders or lessors declaring a cross default in the event of our non-compliance with any such agreements and the risk of loss of our property securing leases and indebtedness due to any resulting lease terminations and foreclosure actions; the effect of our borrowing base calculations and our consolidated fixed charge coverage ratio on availability under our revolving credit facility; increased competition for or a shortage of personnel, wage pressures resulting from increased competition, low unemployment levels, minimum wage increases and changes in overtime laws, and union activity; failure to maintain the security and functionality of our information systems or to prevent a cybersecurity attack or breach; our ability to complete pending or expected disposition, acquisition, or other transactions on agreed upon terms or at all, including in respect of the satisfaction of closing conditions, the risk that regulatory approvals are not obtained or are subject to unanticipated conditions, and uncertainties as to the timing of closing, and our ability to identify and pursue any such opportunities in the future; our ability to obtain additional capital on terms acceptable to us; our ability to complete our capital expenditures in accordance with our plans; our ability to identify and pursue development, investment and acquisition opportunities and our ability to successfully integrate acquisitions; competition for the acquisition of assets; delays in obtaining regulatory approvals; risks associated with the lifecare benefits offered to residents of certain of our entrance fee CCRCs; terminations, early or otherwise, or non-renewal of management agreements; conditions of housing markets, regulatory changes and acts of nature in geographic areas where we are concentrated; terminations of our resident agreements and vacancies in the living spaces we lease; departures of key officers and potential disruption caused by changes in management; risks related to the implementation of our strategy, including initiatives undertaken to execute on our strategic priorities and their effect on our results; actions of activist stockholders, including a proxy contest; market conditions and capital allocation decisions that may influence our determination from time to time whether to purchase any shares under our existing share repurchase program and our ability to fund any repurchases; our ability to maintain consistent quality control; a decrease in the overall demand for senior housing; environmental contamination at any of our communities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; costs to respond to, and adverse determinations resulting from, government reviews, audits and investigations; unanticipated costs to comply with legislative or regulatory developments; as well as other risks detailed from time to time in our filings with the Securities and Exchange Commission, including those set forth under "Item 1A. Risk Factors" contained in our Annual Report on Form 10-K for the year ended December 31, 2018 and Part II, "Item 1A. Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in such SEC filings. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management's views as of the date of this Quarterly Report on Form 10-Q. We cannot guarantee future results, levels of activity, performance or achievements, and, except as required by law, we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained in this Quarterly Report on Form 10-Q to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Overview

As of September 30, 2019, we are the largest operator of senior living communities in the United States based on total capacity, with 794 communities in 45 states and the ability to serve approximately 75,000 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. We operate and manage independent living, assisted living, memory care, and continuing care retirement communities ("CCRCs"). We also offer a range of home health, hospice, and outpatient therapy services to residents of many of our communities and to seniors living outside of our communities.

Our goal is to be the first choice in senior living by being the nation's most trusted and effective senior living provider and employer. With our range of community and service offerings, we believe that we are positioned to take advantage of favorable demographic trends over time. Our community and service offerings combine housing with hospitality and healthcare services. Our senior living communities offer residents a supportive home-like setting, assistance with activities of daily living such as eating, bathing, dressing, toileting, and transferring/walking and, in certain communities, licensed skilled nursing services. We also provide home health, hospice, and outpatient therapy services to residents of many of our communities and to seniors living outside of our communities. By providing residents with a range of service options as their needs change, we provide greater continuity of care, enabling seniors to age-in-place, which we believe enables them to maintain residency with us for a longer period of time. The ability of residents to age-in-place is also beneficial to our residents and their families who are concerned with care decisions for their elderly relatives.

Community Portfolio

As of September 30, 2019, we owned 336 communities (31,226 units), leased 335 communities (24,036 units), managed 17 communities (7,308 units) on behalf of unconsolidated ventures, and managed 106 communities (12,860 units) on behalf of third parties. During the next 12 months, we expect to close on the dispositions of six owned communities (1,087 units) classified as held for sale as of September 30, 2019, which resulted in \$60.4 million being recorded as assets held for sale and \$30.8 million of mortgage debt being included in the current portion of long-term debt within the condensed consolidated balance sheet with respect to such communities. This debt is expected to be repaid with the proceeds from the sales. We continue to market several other communities as part of our real estate strategy announced in 2018. During the next approximately 12 months we also anticipate terminations of certain of our management arrangements with the CCRC Venture and with third parties as we transition to new operators our interim management on formerly leased communities and our management on certain former unconsolidated ventures in which we sold our interest. Additionally, in the three months ended September 30, 2019, we provided notice of our intent to exercise the purchase option with respect to eight leased communities (336 units) and expect the purchase to close in the three months ending March 31, 2020. The closings of the various pending and expected transactions are, or will be subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. However, there can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

CCRC Venture and HCP Master Lease Transactions

On October 1, 2019, we entered into definitive agreements, including a Master Transactions and Cooperation Agreement (the "MTCA") and an Equity Interest Purchase Agreement (the "Purchase Agreement"), providing for a multi-part transaction with HCP, Inc. (now known as Healthpeak Properties, Inc.) ("HCP"). The parties subsequently amended the agreement to include an additional entry fee CCRC community as part of the sale of our interest in the CCRC Venture (rather than removing the CCRC from the CCRC Venture for joint marketing and sale). The components of the multi-part transaction include:

- *CCRC Venture Transaction.* Pursuant to the Purchase Agreement, HCP has agreed to acquire our 51% ownership interest in our unconsolidated entry fee CCRC venture with HCP (the "CCRC Venture"), which will hold 14 entry fee CCRCs (6,383 units) after giving effect to the internal restructuring described below, for a total purchase price equal to 51% of the equity value of the CCRC Venture, which is measured as \$1.06 billion less portfolio debt, subject to a net working capital adjustment. Pursuant to the Purchase Agreement, the parties have agreed to use commercially reasonable efforts to obtain certain governmental approvals and consummate an internal restructuring for the purposes of moving two entry fee CCRCs (889 units) into a new unconsolidated venture on substantially the same terms as the CCRC Venture and to accommodate the sale of such two communities at a future date. Pursuant to the MTCA, the parties have agreed to terminate our existing management agreements with 14 entry fee CCRCs, and HCP has agreed to pay us a \$100 million management agreement termination fee, immediately following the closing of the sale of our ownership interest in the CCRC Venture. Upon termination of the management agreements, we will transition operations of the entry fee CCRCs to a new operator in accordance with the terms of the MTCA. We expect our cash proceeds from the sale of our ownership interest to be approximately \$291 million net of portfolio debt, subject to the net working capital adjustment.

- *Master Lease Transactions.* Pursuant to the MTCA, the parties have agreed to amend and restate our existing master lease with HCP pursuant to which we will continue to lease 25 communities (2,711 units) from HCP, and we have agreed to pay \$405.5 million to acquire 18 communities (2,014 units) that we currently lease from HCP and to reduce our annual rent under the amended and restated master lease, upon which time the 18 communities will be removed from the master lease. In addition, HCP has agreed to transition one leased community (159 units) to a successor operator. With respect to the continuing 24 communities (2,552 units), the amended and restated master lease with HCP will have an initial term to expire on December 31, 2027, subject to two extension options at our election for ten years each, which must be exercised with respect to the entire pool of leased communities. Pursuant to the amended and restated master lease, the initial base rent for the 24 communities will be approximately \$41.8 million and is subject to an escalator of 2.4% per annum on April 1st of each year. Under the terms of the master lease, HCP will agree to make available up to \$35 million for capital expenditures for a five-year period related to the 24 communities at an initial lease rate of 7.0%.

The MTCA and Purchase Agreement contain certain customary representations and warranties made by each party. The Company and HCP have also agreed to certain customary covenants, including that we will use commercially reasonable efforts to obtain certain required lender consents and governmental approvals, subject to certain limitations. The parties' obligations to consummate the transactions contemplated by the MTCA and Purchase Agreement are subject to the satisfaction or waiver of certain conditions, including completion of the internal restructuring, the prior or concurrent closing of the transactions contemplated by the Purchase Agreement, which shall occur no later than December 31, 2020, and the receipt of governmental approvals. The Purchase Agreement may be terminated by either party under certain circumstances, including a material breach by the other party of its obligations under the Purchase Agreement that is not cured within the applicable period or the failure of the closing of the Purchase Agreement to occur on or prior to December 31, 2020.

We anticipate that the expected sale of our interest in the CCRC Venture will utilize a portion of our carryforward tax losses to shield the expected significant taxable investment gain on such transaction.

We expect the sale of our 51% ownership interest in the CCRC Venture, the terminations of our management agreements on 14 entry fee CCRCs, and our acquisition of the 18 currently leased communities to occur in the first quarter of 2020, and the sales of the two entry fee CCRCs to occur over the next 12 to 18 months; however, there can be no assurance that the transactions will close or, if they do, when the actual closings will occur. Subsequent to these transactions, we will have exited substantially all of our unconsolidated venture interests and entry fee CCRC operations. We expect to evaluate using a portion of the net proceeds for opportunistic share repurchases and elective debt pay downs.

Completed Transactions and Impact of Dispositions on Results of Operations

During 2017 and 2018 we undertook an initiative to optimize our community portfolio under which we disposed of owned and leased communities and restructured leases. Further, in 2018 we evaluated our owned-community portfolio for opportunities to monetize select high-value communities. As a result of these initiatives, lease restructuring, expiration and termination activity, and other transactions, during the period of January 1, 2018 to September 30, 2019 we disposed of an aggregate of 30 owned communities (2,534 units) and our triple-net lease obligations on an aggregate of 97 communities (9,636 units) were terminated. During this period we also sold our ownership interests in five unconsolidated ventures and acquired six communities that we previously leased or managed. We agreed to manage a number of formerly leased communities on an interim basis until the communities have been transitioned to new managers, and during such interim periods those communities are reported in the Management Services segment.

Summaries of the significant transactions impacting the periods presented, and the impacts of dispositions of owned and leased communities on our results of operations, are included below. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2018 for more details regarding the terms of such transactions, including transactions we entered into with Ventas, Inc. ("Ventas"), Welltower Inc. ("Welltower") and HCP during 2017 and 2018, which together restructured a significant portion of our triple-net lease obligations with our largest lessors.

Summaries of Completed Transactions

- *Dispositions of Owned Communities.* During the year ended December 31, 2018, we completed the sale of 22 owned communities (1,819 units) for cash proceeds of \$380.7 million, net of transaction costs. These dispositions included the sale of three communities during the nine months ended September 30, 2018 for cash proceeds of \$12.8 million, net of associated debt and transaction costs, and for which we recognized a net gain on sale of assets of \$1.9 million. During the nine months ended September 30, 2019, we completed the sale of eight owned communities (715 units) for cash proceeds of \$39.0 million, net of associated debt and transaction costs, and for which we recognized a net gain on sale of assets of \$0.9 million for the nine months ended September 30, 2019.
- *Welltower.* Pursuant to transactions we entered into with Welltower in June 2018, our triple-net lease obligations on 37 communities (4,095 units) were terminated effective June 30, 2018. We paid Welltower an aggregate lease termination fee of \$58.0 million, and we recognized a \$22.6 million loss on lease termination during the three months ended June 30, 2018. In addition, effective June 30, 2018, we sold our 20% equity interest in our Welltower RIDEA venture to Welltower for net proceeds of \$33.5 million and for which we recognized a \$14.7 million gain on sale during the three months ended June 30, 2018. We also elected not to renew two master leases with Welltower which matured on September 30, 2018 (11 communities; 1,128 units). In addition, the parties separately agreed to allow us to terminate leases with respect to, and to remove from the remaining Welltower leased portfolio, a number of communities with annual aggregate base rent up to \$5.0 million upon Welltower's sale of such communities, and we would receive a corresponding 6.25% rent credit on Welltower's disposition proceeds.
- *Ventas.* During the three months ended June 30, 2018, we recognized a \$125.7 million non-cash loss on lease modification in connection with our restructuring a portfolio of 128 communities that we leased from Ventas into a Master Lease and Security Agreement (the "Ventas Master Lease"), primarily for the extension of the triple-net lease obligations for communities with lease terms that were unfavorable to us given market conditions on the amendment date in exchange for modifications to the change of control provisions and financial covenant provisions of the community leases. Pursuant to the Ventas Master Lease, we have exercised our right to direct Ventas to market for sale 28 communities. Ventas is obligated to use commercially reasonable, diligent efforts to sell such communities on or before December 31, 2020 (subject to extension for regulatory purposes); provided, that Ventas' obligation to sell any such community is subject to Ventas' receiving a purchase price in excess of a mutually agreed upon minimum sale price and to certain other customary closing conditions. Upon any such sale, such communities will be removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease will be reduced by the amount of the net sale proceeds received by Ventas multiplied by 6.25%. During the three months ended June 30, 2019, five (306 units) of the 28 communities identified were sold by Ventas and removed from the Ventas Master Lease, and the annual minimum rent was prospectively reduced by \$1.5 million.
- *HCP.* Pursuant to transactions we entered into with HCP in November 2017, during the three months ended June 30, 2018, we acquired five communities (858 units) from HCP, two of which we formerly leased, for an aggregate purchase price of \$242.8 million, and during the three months ended March 31, 2018, we acquired one community (137 units) for an aggregate purchase price of \$32.1 million. During the year ended December 31, 2018 leases with respect to 33 communities (3,123 units) were terminated, and such communities were removed from our master lease with HCP. In addition, during the three months ended March 31, 2018, HCP acquired our 10% ownership interest in our RIDEA venture with HCP for \$62.3 million and for which we recognized a \$41.7 million gain on sale. Management agreements for 35 communities with former unconsolidated ventures with HCP have been terminated by HCP since November 2017. We have recognized a \$9.3 million non-cash management contract termination gain, of which \$0.6 million was recognized during the three months ended September 30, 2018 and \$0.8 million and \$5.6 million was recognized during the nine months ended September 30, 2019 and 2018, respectively.
- *Blackstone.* During the three months ended September 30, 2018, leases for two communities owned by a former unconsolidated venture with affiliates of Blackstone Real Estate Advisors VIII L.P. were terminated, and we sold our 15% equity interest in the venture consisting of 64 communities.

Summary of Financial Impact of Completed Dispositions

The following table sets forth, for the three months ended September 30, 2018, the amounts included within our consolidated financial data for the 77 communities that we disposed through sales and lease terminations during the period from July 1, 2018 to June 30, 2019 through the respective disposition dates. We did not dispose of any communities during the three months ended September 30, 2019.

	Three Months Ended September 30, 2018		
	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$ 144,631	\$ 14,099	\$ 130,532
Assisted Living and Memory Care	483,125	45,496	437,629
CCRCs	104,147	4,401	99,746
Senior housing resident fees	<u>\$ 731,903</u>	<u>\$ 63,996</u>	<u>\$ 667,907</u>
Facility operating expense			
Independent Living	\$ 87,525	\$ 8,588	\$ 78,937
Assisted Living and Memory Care	338,424	35,182	303,242
CCRCs	82,338	3,785	78,553
Senior housing facility operating expense	<u>\$ 508,287</u>	<u>\$ 47,555</u>	<u>\$ 460,732</u>
Cash facility lease payments	<u>\$ 105,530</u>	<u>\$ 13,111</u>	<u>\$ 92,419</u>

The following tables set forth, for the periods indicated, the amounts included within our consolidated financial data for the 127 communities that we disposed through sales and lease terminations during the period from January 1, 2018 to June 30, 2019 through the respective disposition dates.

	Nine Months Ended September 30, 2019		
	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$ 408,519	\$ —	\$ 408,519
Assisted Living and Memory Care	1,361,225	12,385	1,348,840
CCRCs	305,084	—	305,084
Senior housing resident fees	<u>\$ 2,074,828</u>	<u>\$ 12,385</u>	<u>\$ 2,062,443</u>
Facility operating expense			
Independent Living	\$ 254,770	\$ —	\$ 254,770
Assisted Living and Memory Care	970,526	10,204	960,322
CCRCs	251,128	—	251,128
Senior housing facility operating expense	<u>\$ 1,476,424</u>	<u>\$ 10,204</u>	<u>\$ 1,466,220</u>
Cash facility lease payments	<u>\$ 283,697</u>	<u>\$ 1,451</u>	<u>\$ 282,246</u>

	Nine Months Ended September 30, 2018		
	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$ 462,321	\$ 74,970	\$ 387,351
Assisted Living and Memory Care	1,537,432	223,763	1,313,669
CCRCs	314,012	15,106	298,906
Senior housing resident fees	<u>\$ 2,313,765</u>	<u>\$ 313,839</u>	<u>\$ 1,999,926</u>
Facility operating expense			
Independent Living	\$ 275,659	\$ 44,256	\$ 231,403
Assisted Living and Memory Care	1,046,456	160,606	885,850
CCRCs	243,721	13,701	230,020
Senior housing facility operating expense	<u>\$ 1,565,836</u>	<u>\$ 218,563</u>	<u>\$ 1,347,273</u>
Cash facility lease payments	<u>\$ 361,013</u>	<u>\$ 80,046</u>	<u>\$ 280,967</u>

The following table sets forth the number of communities and units in our senior housing segments disposed through sales and lease terminations during the nine months ended September 30, 2019 and twelve months ended December 31, 2018:

	Nine Months Ended September 30, 2019	Twelve Months Ended December 31, 2018
Number of communities		
Independent Living	—	17
Assisted Living and Memory Care	16	91
CCRCs	—	3
Total	<u>16</u>	<u>111</u>
Total units		
Independent Living	—	2,864
Assisted Living and Memory Care	1,322	7,437
CCRCs	—	547
Total	<u>1,322</u>	<u>10,848</u>

Other Recent Developments

Impact of New Lease Accounting Standard

We adopted the new lease accounting standard (ASC 842) effective January 1, 2019. Adoption of the new lease standard and its application to residency agreements and costs related thereto resulted in the recognition of additional non-cash resident fees and facility operating expense for the three and nine months ended September 30, 2019. The result was a non-cash net impact to net income (loss) and Adjusted EBITDA of negative \$6.0 million and \$19.0 million for the three and nine months ended September 30, 2019, respectively. For the full year 2019, we expect the non-cash net impact of adoption of the new lease standard and application to our residency agreements and costs related thereto to be approximately negative \$27 million to net income (loss) and Adjusted EBITDA. Adoption of the new lease standard had no impact on the amount of net cash provided by (used in) operating activities and Adjusted Free Cash Flow for the three and nine months ended September 30, 2019 and is not expected to have any impact on such measures for the full year.

Increased Competitive Pressures

During and since 2016 we have experienced an elevated rate of competitive new openings, with significant new competition opening in several of our markets, which has adversely affected our occupancy, revenues, results of operations, and cash flow. We

expect the elevated rate of competitive new openings and pressures on our occupancy and rate growth to continue through 2019. Such increased level of new openings and oversupply, as well as lower levels of unemployment, generally have also contributed to increased competition for community leadership and personnel and wage pressures. We continue to address new competition by focusing on operations with the objective to ensure high customer satisfaction, retain key leadership, and actively engage district and regional management in community operations; enhancing our local and national marketing and public relations efforts; and evaluating current community position relative to competition and repositioning if necessary (e.g., services, amenities, programming and price). We also continue to invest above industry to improve the total rewards program and performance management, training, and development program for our community leaders and staff.

Planned Capital Expenditures

During 2018 we completed an intensive review of our community-level capital expenditure needs with a focus on ensuring that our communities are in appropriate physical condition to support our strategy and determining what additional investments are needed to protect the value of our community portfolio. As a result of that review, we have budgeted to make significant additional near-term investments in our communities, a portion of which will be reimbursed by our lessors. In the aggregate, we expect our full-year 2019 non-development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$250 million. For 2019, this includes an increase of approximately \$75 million in our community-level capital expenditures relative to 2018, primarily attributable to major building infrastructure projects. We anticipate that our 2019 capital expenditures will be funded from cash on hand, cash flows from operations, and, if necessary, amounts drawn on our secured credit facility. We expect that our 2020 community-level capital expenditures will continue to be elevated relative to 2018, but lower than 2019.

Program Max Initiative

During the nine months ended September 30, 2019, we made continued progress on our Program Max initiative under which we expand, renovate, redevelop, and reposition certain of our existing communities where economically advantageous. During such period, we invested \$18.7 million on Program Max projects. We currently have 15 Program Max projects that have been approved, most of which have begun construction and are expected to generate 28 net new units.

Tax Reform

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("Tax Act") into law. The Tax Act limits the annual deductibility of a corporation's net interest expense unless it elects to be exempt from such deductibility limitation under the real property trade or business exception. The Company elected the real property trade or business exception with the 2018 tax return. As such, the Company is required to apply the alternative depreciation system ("ADS") to all current and future residential real property and qualified improvement property assets. This change impacts the current and future tax depreciation deductions and impacted the Company's valuation allowance accordingly. Additional information that may affect the Company's provisional amounts would include further clarification and guidance on how the Internal Revenue Service will implement tax reform and further clarification and guidance on how state taxing authorities will implement tax reform and the related effect on the Company's state and local income tax returns, state and local net operating losses, and corresponding valuation allowances.

Results of Operations

As of September 30, 2019 our total operations included 794 communities with a capacity to serve approximately 75,000 residents. As of that date we owned 336 communities (31,226 units), leased 335 communities (24,036 units), managed 17 communities (7,308 units) on behalf of unconsolidated ventures, and managed 106 communities (12,860 units) on behalf of third parties. The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q. The results of operations for any particular period are not necessarily indicative of results for any future period. Transactions completed during the period of January 1, 2018 to September 30, 2019 significantly affect the comparability of our results of operations, and summaries of such transactions and their impact on our results of operations are above under "Completed Transactions and Impact of Dispositions on Results of Operations."

This section uses the operating measures defined below. Our adoption and application of the new lease accounting standard has impacted our results for the three and nine months ended September 30, 2019, and will impact our results for the remaining 2019 periods, due to our recognition of additional resident fee revenue and facility operating expense, which is non-cash and is non-recurring in future years. To aid in comparability between periods, presentations of our results on a same community basis and RevPAR and RevPOR exclude the impact of the lease accounting standard.

- Operating results and data presented on a **same community basis** reflect results and data of the same store communities (utilizing our methodology for determining same store communities which generally excludes assets held for sale, acquisitions and dispositions since the beginning of the prior year, and certain communities that have undergone or are undergoing expansion, redevelopment, and repositioning projects) and, for the 2019 period, exclude the additional resident fee revenue and facility operating expense recognized as a result of application of the new lease accounting standard under ASC 842.
- RevPAR**, or average monthly senior housing resident fee revenue per available unit, is defined as resident fee revenue for the corresponding portfolio for the period (excluding Health Care Services segment revenue and entrance fee amortization, and, for the 2019 period, the additional resident fee revenue recognized as a result of the application of the new lease accounting standard under ASC 842), divided by the weighted average number of available units in the corresponding portfolio for the period, divided by the number of months in the period.
- RevPOR**, or average monthly senior housing resident fee revenue per occupied unit, is defined as resident fee revenue for the corresponding portfolio for the period (excluding Health Care Services segment revenue and entrance fee amortization, and, for the 2019 period, the additional resident fee revenue recognized as a result of the application of the new lease accounting standard under ASC 842), divided by the weighted average number of occupied units in the corresponding portfolio for the period, divided by the number of months in the period.

This section includes the non-GAAP performance measure Adjusted EBITDA. See "Non-GAAP Financial Measures" below for our definition of the measure and other important information regarding such measure, including reconciliations to the most comparable GAAP measures. During the first quarter of 2019, we modified our definition of Adjusted EBITDA to exclude transaction and organizational restructuring costs, and amounts for all periods herein reflect application of the modified definition.

Comparison of Three Months Ended September 30, 2019 and 2018

Summary Operating Results

The following table summarizes our overall operating results for the three months ended September 30, 2019 and 2018.

(in thousands)	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Total revenue	\$ 1,008,949	\$ 1,120,062	\$ (111,113)	(9.9)%
Facility operating expense	615,717	607,076	8,641	1.4 %
Net income (loss)	(78,508)	(37,140)	41,368	111.4 %
Adjusted EBITDA	80,447	128,122	(47,675)	(37.2)%

The decrease in total revenue was primarily attributable to the disposition of 77 communities through sales of owned communities and lease terminations since the beginning of the prior year period, which resulted in \$63.9 million less in resident fees during the three months ended September 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by a 1.8% increase in same community RevPAR, comprised of a 2.8% increase in same community RevPOR and an 80 basis points decrease in same community weighted average occupancy. Additionally, management services revenue, including management fees and reimbursed costs incurred on behalf of managed communities, decreased \$72.2 million primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

The increase in facility operating expense was primarily attributable to a 7.0% increase in same community facility operating expense, which was primarily due to an increase in labor expense attributable to wage rate increases, an increase in employee benefit expense, and an increase in advertising, property remediation, and insurance costs during the period. The increase was partially offset by the disposition of communities since the beginning of the prior year period, which resulted in \$47.5 million less in facility operating expense during the three months ended September 30, 2019 compared to the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense of approximately \$8.0 million and \$14.0 million, respectively, during the three months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense excludes approximately \$7.3 million and \$12.8 million, respectively, of such additional revenue and expenses.

The increase in net loss was primarily attributable to the revenue and facility operating expense factors noted above, a \$9.3 million decrease in net gain on sale of assets, and a \$16.0 million decrease in benefit for income taxes.

The decrease in Adjusted EBITDA was primarily attributable to the revenue and facility operating expense factors noted above.

Operating Results - Senior Housing Segments

The following table summarizes the operating results and data of our three senior housing segments (Independent Living, Assisted Living and Memory Care, and CCRCs) on a combined basis for the three months ended September 30, 2019 and 2018, including operating results and data on a same community basis. See management's discussion and analysis of the operating results on an individual segment basis on the following pages.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 689,452	\$ 731,903	\$ (42,451)	(5.8)%
Facility operating expense	\$ 508,710	\$ 508,287	\$ 423	0.1 %
Number of communities (period end)	671	729	(58)	(8.0)%
Number of units (period end)	55,262	60,009	(4,747)	(7.9)%
Total average units	55,258	61,370	(6,112)	(10.0)%
RevPAR	\$ 4,109	\$ 3,973	\$ 136	3.4 %
Occupancy rate (weighted average)	84.2%	84.2%	—	n/a
RevPOR	\$ 4,880	\$ 4,718	\$ 162	3.4 %

Same Community Operating Results and Data

Resident fees	\$ 629,159	\$ 618,129	\$ 11,030	1.8 %
Facility operating expense	\$ 450,181	\$ 420,846	\$ 29,335	7.0 %
Number of communities	644	644	—	—
Total average units	50,761	50,773	(12)	—
RevPAR	\$ 4,129	\$ 4,056	\$ 73	1.8 %
Occupancy rate (weighted average)	84.5%	85.3%	(80) bps	n/a
RevPOR	\$ 4,886	\$ 4,755	\$ 131	2.8 %

Independent Living Segment

The following table summarizes the operating results and data for our Independent Living segment for the three months ended September 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 136,874	\$ 144,631	\$ (7,757)	(5.4)%
Facility operating expense	\$ 87,460	\$ 87,525	\$ (65)	(0.1)%
Number of communities (period end)	68	75	(7)	(9.3)%
Number of units (period end)	12,511	13,550	(1,039)	(7.7)%
Total average units	12,511	13,553	(1,042)	(7.7)%
RevPAR	\$ 3,581	\$ 3,557	\$ 24	0.7 %
Occupancy rate (weighted average)	89.1%	89.5%	(40) bps	n/a
RevPOR	\$ 4,018	\$ 3,973	\$ 45	1.1 %

Same Community Operating Results and Data

Resident fees	\$ 118,981	\$ 115,887	\$ 3,094	2.7 %
Facility operating expense	\$ 73,088	\$ 68,964	\$ 4,124	6.0 %
Number of communities	62	62	—	—
Total average units	11,068	11,074	(6)	(0.1)%
RevPAR	\$ 3,583	\$ 3,488	\$ 95	2.7 %
Occupancy rate (weighted average)	89.9%	89.9%	—	n/a
RevPOR	\$ 3,987	\$ 3,879	\$ 108	2.8 %

The decrease in the segment's resident fees was primarily attributable to the disposition of seven communities since the beginning of the prior year period, which resulted in \$14.1 million less in resident fees during the three months ended September 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 2.8% increase in same community RevPOR and consistent weighted average occupancy of 89.9%. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$8.6 million less in facility operating expense during the three months ended September 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases, an increase in employee benefit expense, and an increase in advertising, property remediation, and insurance costs during the period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$2.5 million and \$3.4 million, respectively, during the three months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$2.2 million and \$3.0 million, respectively, of such additional revenue and expenses.

Assisted Living and Memory Care Segment

The following table summarizes the operating results and data for our Assisted Living and Memory Care segment for the three months ended September 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 452,474	\$ 483,125	\$ (30,651)	(6.3)%
Facility operating expense	\$ 335,618	\$ 338,424	\$ (2,806)	(0.8)%
Number of communities (period end)	577	627	(50)	(8.0)%
Number of units (period end)	36,177	39,725	(3,548)	(8.9)%
Total average units	36,173	40,933	(4,760)	(11.6)%
RevPAR	\$ 4,127	\$ 3,934	\$ 193	4.9 %
Occupancy rate (weighted average)	83.2%	82.7%	50 bps	n/a
RevPOR	\$ 4,962	\$ 4,755	\$ 207	4.4 %

Same Community Operating Results and Data

Resident fees	\$ 433,108	\$ 424,091	\$ 9,017	2.1 %
Facility operating expense	\$ 313,833	\$ 291,617	\$ 22,216	7.6 %
Number of communities	563	563	—	—
Total average units	34,852	34,857	(5)	—
RevPAR	\$ 4,142	\$ 4,056	\$ 86	2.1 %
Occupancy rate (weighted average)	83.3%	84.0%	(70) bps	n/a
RevPOR	\$ 4,975	\$ 4,826	\$ 149	3.1 %

The decrease in the segment's resident fees was primarily attributable to the disposition of 68 communities since the beginning of the prior year period, which resulted in \$45.4 million less in resident fees during the three months ended September 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 3.1% increase in same community RevPOR and a 70 basis points decrease in same community weighted average occupancy. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$35.1 million less in facility operating expense during the three months ended September 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases, an increase in employee benefit expense, and an increase in advertising, property remediation, and insurance costs during the period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$4.6 million and \$9.1 million, respectively, during the three months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$4.4 million and \$8.6 million, respectively, of such additional revenue and expenses.

CCRCs Segment

The following table summarizes the operating results and data for our CCRCs segment for the three months ended September 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 100,104	\$ 104,147	\$ (4,043)	(3.9)%
Facility operating expense	\$ 85,632	\$ 82,338	\$ 3,294	4.0 %
Number of communities (period end)	26	27	(1)	(3.7)%
Number of units (period end)	6,574	6,734	(160)	(2.4)%
Total average units	6,574	6,884	(310)	(4.5)%
RevPAR	\$ 5,012	\$ 5,024	\$ (12)	(0.2)%
Occupancy rate (weighted average)	80.4%	82.6%	(220) bps	n/a
RevPOR	\$ 6,234	\$ 6,082	\$ 152	2.5 %

Same Community Operating Results and Data

Resident fees	\$ 77,070	\$ 78,151	\$ (1,081)	(1.4)%
Facility operating expense	\$ 63,260	\$ 60,265	\$ 2,995	5.0 %
Number of communities	19	19	—	—
Total average units	4,841	4,842	(1)	—
RevPAR	\$ 5,279	\$ 5,354	\$ (75)	(1.4)%
Occupancy rate (weighted average)	81.1%	83.7%	(260) bps	n/a
RevPOR	\$ 6,509	\$ 6,397	\$ 112	1.8 %

The decrease in the segment's resident fees was primarily attributable to the disposition of two communities since the beginning of the prior year period, which resulted in \$4.4 million less in resident fees during the three months ended September 30, 2019 compared to the prior year period. Additionally, there was a decrease in the segment's same community RevPAR, comprised of a 260 basis points decrease in same community weighted average occupancy and a 1.8% increase in same community RevPOR. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases.

The increase in the segment's facility operating expense was primarily attributable to an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases, an increase in employee benefit expense, and an increase in advertising, property remediation, and insurance costs during the period. The increase in facility operating expense was partially offset by the disposition of communities since the beginning of the prior year period, which resulted in \$3.8 million less in facility operating expense during the three months ended September 30, 2019 compared to the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$0.9 million and \$1.5 million, respectively, during the three months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$0.7 million and \$1.2 million, respectively, of such additional revenue and expenses.

Operating Results - Health Care Services Segment

The following table summarizes the operating results and data for our Health Care Services segment for the three months ended September 30, 2019 and 2018.

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
(in thousands, except census and treatment codes)				
Resident fees	\$ 111,785	\$ 108,276	\$ 3,509	3.2%
Facility operating expense	\$ 107,007	\$ 98,789	\$ 8,218	8.3%
Home health average daily census	15,357	14,890	467	3.1%
Hospice average daily census	1,642	1,411	231	16.4%
Outpatient therapy treatment codes	171,578	168,569	3,009	1.8%

The increase in the segment's resident fees was primarily attributable to an increase in volume for hospice services and an increase in home health average daily census, partially offset by sales force turnover and customer relations issues related to the centralized intake initiative.

The increase in the segment's facility operating expense was primarily attributable to an increase in labor costs arising from wage rate increases and the expansion of our hospice services. In addition, there was an increase in employee benefit expense.

On October 31, 2019, the Centers for Medicare and Medicaid Services ("CMS") issued a final rule that included routine updates to home health payment rates and sets forth the implementation of the Patient-Driven Grouping Model ("PDGM"), an alternate home health case-mix adjustment methodology with a 30-day unit of payment that will be effective beginning January 1, 2020. The final rule also will phase out requests for anticipated payment ("RAP") over 2020 with the full elimination of RAPs in 2021. We are currently in the process of preparing for the implementation of PDGM effective January 1, 2020 and are evaluating the impact of the final rule on our home health operations.

Operating Results - Management Services Segment

The following table summarizes the operating results and data for our Management Services segment for the three months ended September 30, 2019 and 2018.

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
(in thousands, except communities, units, and occupancy)				
Management fees	\$ 13,564	\$ 18,528	\$ (4,964)	(26.8)%
Reimbursed costs incurred on behalf of managed communities	\$ 194,148	\$ 261,355	\$ (67,207)	(25.7)%
Number of communities (period end)	123	232	(109)	(47.0)%
Number of units (period end)	20,168	32,511	(12,343)	(38.0)%
Total average units	20,730	32,471	(11,741)	(36.2)%
Occupancy rate (weighted average)	83.4%	84.0%	(60) bps	n/a

The decrease in management fees was primarily attributable to the transition of management arrangements on 117 net communities since the beginning of the prior year period, generally for interim management arrangements on formerly leased or owned communities and management arrangements on certain former unconsolidated ventures in which we sold our interest. Management fees of \$13.6 million for the three months ended September 30, 2019 include \$0.5 million of management fees attributable to communities for which our management agreements were terminated during such period and approximately \$8 million of management fees attributable to communities that we expect the terminations of our management agreements to occur in the next approximately 12 months, including management agreements on communities owned by the CCRC Venture, interim management arrangements on formerly leased communities, and management arrangements on certain former unconsolidated ventures in which we sold our interest. Pursuant to the MTCA with HCP, HCP has agreed to pay us \$100 million immediately following the closing of the sale of our ownership interest in the CCRC Venture, which is expected to close in the first quarter of 2020.

The decrease in reimbursed costs incurred on behalf of managed communities was primarily attributable to terminations of management agreements subsequent to the beginning of the prior year period.

Operating Results - Other Income and Expense Items

The following table summarizes other income and expense items in our operating results for the three months ended September 30, 2019 and 2018.

<i>(in thousands)</i>	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
General and administrative expense	\$ 56,409	\$ 58,796	\$ (2,387)	(4.1)%
Facility operating lease expense	67,253	70,392	(3,139)	(4.5)%
Depreciation and amortization	93,550	110,980	(17,430)	(15.7)%
Goodwill and asset impairment	2,094	5,500	(3,406)	(61.9)%
Loss (gain) on facility lease termination and modification, net	—	2,337	(2,337)	(100.0)%
Costs incurred on behalf of managed communities	194,148	261,355	(67,207)	(25.7)%
Interest income	2,162	1,654	508	30.7 %
Interest expense	(62,078)	(68,626)	(6,548)	9.5 %
Debt modification and extinguishment costs	(2,455)	(33)	2,422	NM
Equity in earnings (loss) of unconsolidated ventures	(2,057)	(1,340)	717	(53.5)%
Gain (loss) on sale of assets, net	579	9,833	(9,254)	(94.1)%
Other non-operating income (loss)	3,763	(17)	3,780	NM
Benefit (provision) for income taxes	1,800	17,763	(15,963)	(89.9)%

General and Administrative Expense. The decrease in general and administrative expense was primarily attributable to a reduction in our corporate headcount, as we scaled our general and administrative costs in connection with community dispositions. The decrease was partially offset by a \$0.7 million increase in transactional and organizational restructuring costs compared to the prior period, to \$3.9 million for the three months ended September 30, 2019. The increase was due to \$3.4 of transaction costs related to stockholder relations advisory matters incurred during the three months ended September 30, 2019. Transaction costs include those directly related to acquisition, disposition, financing and leasing activity, our assessment of options and alternatives to enhance stockholder value, and stockholder relations advisory matters, and are primarily comprised of legal, finance, consulting, professional fees and other third party costs. Organizational restructuring costs include those related to our efforts to reduce general and administrative expense and our senior leadership changes, including severance and retention costs. For the full year 2019, we expect transaction costs related to stockholder relations advisory matters to be approximately \$5.5 million, of which \$3.4 million was incurred for the three months ended September 30, 2019.

Facility Operating Lease Expense. The decrease in facility operating lease expense was primarily due to lease termination activity since the beginning of the prior year quarter.

Depreciation and Amortization. The decrease in depreciation and amortization expense was primarily due to disposition activity through sales and lease terminations since the beginning of the prior year quarter.

Goodwill and Asset Impairment. During the current year period, we recorded \$2.1 million of non-cash impairment charges, primarily for assets held for sale and property, plant and equipment and leasehold intangibles for certain communities. During the prior year period, we recorded \$5.5 million of non-cash impairment charges. The prior year period impairment charges primarily consisted of a \$3.0 million decrease in the estimated selling prices of assets held for sale and a \$2.5 million impairment of property, plant and equipment and leasehold intangibles for certain communities, primarily in the Assisted Living and Memory Care segment. See Note 5 to the condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information about the impairment charges.

Costs Incurred on Behalf of Managed Communities. The decrease in costs incurred on behalf of managed communities was primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

Interest Expense. The decrease in interest expense was primarily due to financing lease termination activity and a decrease in interest expense on long-term debt, reflecting the impact of the repayment of debt since the beginning of the prior year period and lower interest rates.

Gain (Loss) on Sale of Assets, Net. The decrease in gain on sale of assets, net was primarily due to gains recognized for the termination of financing leases during the prior year period.

Benefit (Provision) for Income Taxes. The difference between our effective tax rate for the three months ended September 30, 2019 and 2018 was primarily due to an increase in the full year valuation allowance projected in 2019 as compared to 2018.

We recorded an aggregate deferred federal, state, and local tax benefit of \$19.4 million as a result of the operating loss for the three months ended September 30, 2019, offset by an increase in the valuation allowance of \$17.8 million. The change in the valuation allowance for the three months ended September 30, 2019 resulted from anticipated reversal of future tax liabilities offset by future tax deductions. We recorded an aggregate deferred federal, state, and local tax benefit of \$15.4 million as a result of the operating loss for the three months ended September 30, 2018, and we reduced our valuation allowance in the quarter by \$2.7 million.

We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Our valuation allowance as of September 30, 2019 and December 31, 2018 was \$387.9 million and \$336.4 million, respectively.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the three months ended September 30, 2019 and 2018 which are included in provision for income tax for the period. Tax returns for years 2014 through 2018 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Operating Results - Unconsolidated Ventures

The Company's proportionate share of Adjusted EBITDA of unconsolidated ventures was \$9.8 million for the three months ended September 30, 2019, which represented a decrease of 13.1% from the three months ended September 30, 2018 primarily attributable to the sale of our interest in two unconsolidated ventures since the beginning of the prior year quarter. Upon completion of the dispositions pursuant to the multi-part transaction with HCP announced October 1, 2019 we will have eliminated substantially all of our unconsolidated venture interests. See above under "CCRC Venture and HCP Master Lease Transactions" for more details regarding the terms and expected timing of such dispositions.

Comparison of Nine Months Ended September 30, 2019 and 2018

Summary Operating Results

The following table summarizes our overall operating results for the nine months ended September 30, 2019 and 2018.

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
<i>(in thousands)</i>				
Total revenue	\$ 3,070,450	\$ 3,462,496	\$ (392,046)	(11.3)%
Facility operating expense	1,792,057	1,866,477	(74,420)	(4.0)%
Net income (loss)	(177,169)	(659,883)	(482,714)	(73.2)%
Adjusted EBITDA	301,066	422,495	(121,429)	(28.7)%

The decrease in total revenue was primarily attributable to the disposition of 127 communities through sales of owned communities and lease terminations since the beginning of the prior year period, which resulted in \$301.5 million less in resident fees during the nine months ended September 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by a 1.8% increase in same community RevPAR, comprised of a 3.1% increase in same community RevPOR and a 100 basis points decrease in same community weighted average occupancy. Additionally, management services revenue, including management fees and reimbursed costs incurred on behalf of managed communities, decreased \$162.2 million primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

The decrease in facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$208.4 million less in facility operating expense during the nine months ended September 30, 2019 compared to the prior year period. The decrease was partially offset by a 5.6% increase in same community facility operating expense, which was primarily due to an increase in labor expense arising from wage rate increases, an increase in employee benefit expense, and an increase in advertising and insurance costs during the period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense of approximately \$16.0 million and \$35.0 million, respectively, during the nine months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense excludes approximately \$14.6 million and \$32.0 million, respectively, of such additional revenue and expenses.

The improvement to net income (loss) was primarily attributable to decreases in goodwill and asset impairment expense and in loss on facility lease termination and modification compared to the prior period, offset by a decrease in net gain on sale of assets and the revenue and facility operating expense factors noted above. Goodwill and asset impairment expense was \$6.3 million for the nine months ended September 30, 2019 compared to \$452.0 million for the prior year period. We recognized a loss on lease termination and modification of \$148.8 million for the nine months ended September 30, 2018 primarily as a result of agreements with Ventas and Welltower. Net gain on sale of assets was \$2.7 million for the nine months ended September 30, 2019 compared to a net gain on sale of assets of \$76.6 million for the prior year period.

The decrease in Adjusted EBITDA was primarily attributable to the revenue and facility operating expense factors noted above, offset by lower general and administrative expenses (excluding non-cash stock-based compensation expense and transaction and organizational restructuring costs) of \$10.1 million and lower cash facility operating lease payments of \$33.4 million.

Operating Results - Senior Housing Segments

The following table summarizes the operating results and data of our three senior housing segments (Independent Living, Assisted Living and Memory Care, and CCRCs) on a combined basis for the nine months ended September 30, 2019 and 2018 including operating results and data on a same community basis. See management's discussion and analysis of the operating results on an individual segment basis on the following pages.

<i>(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)</i>	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 2,074,828	\$ 2,313,765	\$ (238,937)	(10.3)%
Facility operating expense	\$ 1,476,424	\$ 1,565,836	\$ (89,412)	(5.7)%
Number of communities (period end)	671	729	(58)	(8.0)%
Number of units (period end)	55,262	60,009	(4,747)	(7.9)%
Total average units	55,728	64,757	(9,029)	(13.9)%
RevPAR	\$ 4,103	\$ 3,968	\$ 135	3.4 %
Occupancy rate (weighted average)	83.7%	84.3%	(60) bps	n/a
RevPOR	\$ 4,900	\$ 4,709	\$ 191	4.1 %

Same Community Operating Results and Data

Resident fees	\$ 1,890,071	\$ 1,856,594	\$ 33,477	1.8 %
Facility operating expense	\$ 1,306,364	\$ 1,237,417	\$ 68,947	5.6 %
Number of communities	644	644	—	—
Total average units	50,753	50,777	(24)	—
RevPAR	\$ 4,135	\$ 4,060	\$ 75	1.8 %
Occupancy rate (weighted average)	84.2%	85.2%	(100) bps	n/a
RevPOR	\$ 4,913	\$ 4,764	\$ 149	3.1 %

Independent Living Segment

The following table summarizes the operating results and data for our Independent Living segment for the nine months ended September 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 408,519	\$ 462,321	\$ (53,802)	(11.6)%
Facility operating expense	\$ 254,770	\$ 275,659	\$ (20,889)	(7.6)%
Number of communities (period end)	68	75	(7)	(9.3)%
Number of units (period end)	12,511	13,550	(1,039)	(7.7)%
Total average units	12,460	14,561	(2,101)	(14.4)%
RevPAR	\$ 3,592	\$ 3,528	\$ 64	1.8 %
Occupancy rate (weighted average)	89.3%	88.4%	90 bps	n/a
RevPOR	\$ 4,021	\$ 3,991	\$ 30	0.8 %

Same Community Operating Results and Data

Resident fees	\$ 356,724	\$ 346,239	\$ 10,485	3.0 %
Facility operating expense	\$ 214,817	\$ 204,369	\$ 10,448	5.1 %
Number of communities	62	62	—	—
Total average units	11,058	11,078	(20)	(0.2)%
RevPAR	\$ 3,585	\$ 3,473	\$ 112	3.2 %
Occupancy rate (weighted average)	89.8%	89.2%	60 bps	n/a
RevPOR	\$ 3,991	\$ 3,891	\$ 100	2.6 %

The decrease in the segment's resident fees was primarily attributable to the disposition of 17 communities since the beginning of the prior year period, which resulted in \$75.0 million less in resident fees during the nine months ended September 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 2.6% increase in same community RevPOR and a 60 basis points increase in same community weighted average occupancy. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases. Additionally, the decrease in resident fees was partially offset by \$2.9 million of additional revenue for one community acquired subsequent to the beginning of the prior year period.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$44.3 million less in facility operating expense during the nine months ended September 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense including an increase in labor expense arising from wage rate increases, an increase in employee benefit expense, an increase in advertising costs, and an increase in insurance costs during the period. Additionally, the decrease in facility operating expense was partially offset by \$2.1 million of additional facility operating expense for one community acquired subsequent to the beginning of the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$5.8 million and \$9.2 million, respectively, during the nine months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$5.1 million and \$8.1 million, respectively, of such additional revenue and expenses.

Assisted Living and Memory Care Segment

The following table summarizes the operating results and data for our Assisted Living and Memory Care segment for the nine months ended September 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 1,361,225	\$ 1,537,432	\$ (176,207)	(11.5)%
Facility operating expense	\$ 970,526	\$ 1,046,456	\$ (75,930)	(7.3)%
Number of communities (period end)	577	627	(50)	(8.0)%
Number of units (period end)	36,177	39,725	(3,548)	(8.9)%
Total average units	36,701	43,369	(6,668)	(15.4)%
RevPAR	\$ 4,096	\$ 3,939	\$ 157	4.0 %
Occupancy rate (weighted average)	82.3%	83.0%	(70) bps	n/a
RevPOR	\$ 4,979	\$ 4,743	\$ 236	5.0 %

Same Community Operating Results and Data

Resident fees	\$ 1,297,455	\$ 1,275,442	\$ 22,013	1.7 %
Facility operating expense	\$ 904,693	\$ 855,773	\$ 48,920	5.7 %
Number of communities	563	563	—	—
Total average units	34,854	34,857	(3)	—
RevPAR	\$ 4,136	\$ 4,066	\$ 70	1.7 %
Occupancy rate (weighted average)	82.7%	84.1%	(140) bps	n/a
RevPOR	\$ 5,004	\$ 4,833	\$ 171	3.5 %

The decrease in the segment's resident fees was primarily attributable to the disposition of 107 communities since the beginning of the prior year period, which resulted in \$211.4 million less in resident fees during the nine months ended September 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 3.5% increase in same community RevPOR and a 140 basis points decrease in same community weighted average occupancy. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets. Additionally, the decrease in resident fees was partially offset by \$2.7 million of additional revenue for two communities acquired subsequent to the beginning of the prior year period.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$150.4 million less in facility operating expense during the nine months ended September 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases, an increase in employee benefit expense, and an increase in advertising and insurance costs during the period. Additionally, the decrease in facility operating expense was partially offset by \$1.6 million of additional facility operating expense for two communities acquired subsequent to the beginning of the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$8.3 million and \$21.9 million, respectively, during the nine months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$7.8 million and \$20.7 million, respectively, of such additional revenue and expenses.

CCRCs Segment

The following table summarizes the operating results and data for our CCRCs segment for the nine months ended September 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 305,084	\$ 314,012	\$ (8,928)	(2.8)%
Facility operating expense	\$ 251,128	\$ 243,721	\$ 7,407	3.0 %
Number of communities (period end)	26	27	(1)	(3.7)%
Number of units (period end)	6,574	6,734	(160)	(2.4)%
Total average units	6,567	6,827	(260)	(3.8)%
RevPAR	\$ 5,108	\$ 5,091	\$ 17	0.3 %
Occupancy rate (weighted average)	81.3%	83.2%	(190) bps	n/a
RevPOR	\$ 6,284	\$ 6,119	\$ 165	2.7 %

Same Community Operating Results and Data

Resident fees	\$ 235,892	\$ 234,913	\$ 979	0.4 %
Facility operating expense	\$ 186,854	\$ 177,275	\$ 9,579	5.4 %
Number of communities	19	19	—	—
Total average units	4,841	4,842	(1)	—
RevPAR	\$ 5,387	\$ 5,366	\$ 21	0.4 %
Occupancy rate (weighted average)	82.1%	83.9%	(180) bps	n/a
RevPOR	\$ 6,560	\$ 6,393	\$ 167	2.6 %

The decrease in the segment's resident fees was primarily attributable to the disposition of three communities since the beginning of the prior year period, which resulted in \$15.1 million less in resident fees during the nine months ended September 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 2.6% increase in same community RevPOR and a 180 basis points decrease in same community weighted average occupancy. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets. Additionally, the decrease in resident fees was partially offset by \$4.3 million of additional revenue for one community acquired subsequent to the beginning of the prior year period.

The increase in the segment's facility operating expense was primarily attributable to an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases and an increase in employee benefit expense. Additionally, there was \$2.8 million of additional facility operating expense for one community acquired subsequent to the beginning of the prior year period. The increase in facility operating expense was partially offset by the disposition of communities since the beginning of the prior year period, which resulted in \$13.7 million less in facility operating expense during the nine months ended September 30, 2019 compared to the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$2.0 million and \$4.0 million, respectively, during the nine months ended September 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$1.6 million and \$3.1 million, respectively, of such additional revenue and expenses.

Operating Results - Health Care Services Segment

The following table summarizes the operating results and data for our Health Care Services segment for the nine months ended September 30, 2019 and 2018.

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
(in thousands, except census and treatment codes)				
Resident fees	\$ 337,751	\$ 328,649	\$ 9,102	2.8 %
Facility operating expense	\$ 315,633	\$ 300,641	\$ 14,992	5.0 %
Home health average daily census	15,740	15,206	534	3.5 %
Hospice average daily census	1,538	1,350	188	13.9 %
Outpatient therapy treatment codes	500,045	511,804	(11,759)	(2.3)%

The increase in the segment's resident fees was primarily attributable to an increase in volume for hospice services and an increase in home health average daily census, partially offset by sales force turnover, customer relations issues related to the centralized intake initiative, unfavorable case-mix, and community dispositions.

The increase in the segment's facility operating expense was primarily attributable to an increase in labor costs arising from wage rate increases and the expansion of our hospice services. In addition, there was an increase in employee benefit expense.

Operating Results - Management Services Segment

The following table summarizes the operating results and data for our Management Services segment for the nine months ended September 30, 2019 and 2018.

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
(in thousands, except communities, units, and occupancy)				
Management fees	\$ 44,756	\$ 54,280	\$ (9,524)	(17.5)%
Reimbursed costs incurred on behalf of managed communities	\$ 613,115	\$ 765,802	\$(152,687)	(19.9)%
Number of communities (period end)	123	232	(109)	(47.0)%
Number of units (period end)	20,168	32,511	(12,343)	(38.0)%
Total average units	22,747	32,197	(9,450)	(29.4)%
Occupancy rate (weighted average)	83.0%	83.9%	(90) bps	n/a

The decrease in management fees was primarily attributable to the transition of management arrangements on 106 net communities since the beginning of the prior year period, generally for interim management arrangements on formerly leased or owned communities and management arrangements on certain former unconsolidated ventures in which we sold our interest. Management fees of \$44.8 million for the nine months ended September 30, 2019 include \$6.0 million of management fees attributable to communities for which our management agreements were terminated during such period and approximately \$24 million of management fees attributable to communities that we expect the terminations of our management agreements to occur in the next approximately 12 months, including management agreements on communities owned by the CCRC Venture, interim management arrangements on formerly leased communities, and management arrangements on certain former unconsolidated ventures in which we sold our interest. Pursuant to the MTCA with HCP, HCP has agreed to pay us \$100 million immediately following the closing of the sale of our ownership interest in the CCRC Venture, which is expected to close in the first quarter of 2020.

The decrease in reimbursed costs incurred on behalf of managed communities was primarily attributable to terminations of management agreements subsequent to the beginning of the prior year period.

Operating Results - Other Income and Expense Items

The following table summarizes other income and expense items in our operating results for the nine months ended September 30, 2019 and 2018.

(in thousands)	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
General and administrative expense	\$ 170,296	\$ 203,138	\$ (32,842)	(16.2)%
Facility operating lease expense	203,610	232,752	(29,142)	(12.5)%
Depreciation and amortization	284,462	341,351	(56,889)	(16.7)%
Goodwill and asset impairment	6,254	451,966	(445,712)	(98.6)%
Loss (gain) on facility lease termination and modification, net	2,006	148,804	(146,798)	(98.7)%
Costs incurred on behalf of managed communities	613,115	765,802	(152,687)	(19.9)%
Interest income	8,059	7,578	481	6.3 %
Interest expense	(188,271)	(215,067)	(26,796)	(12.5)%
Debt modification and extinguishment costs	(5,194)	(77)	5,117	NM
Equity in earnings (loss) of unconsolidated ventures	(3,574)	(6,907)	(3,333)	(48.3)%
Gain (loss) on sale of assets, net	2,723	76,586	(73,863)	(96.4)%
Other non-operating income (loss)	9,950	8,074	1,876	23.2 %
Benefit (provision) for income taxes	488	17,724	(17,236)	(97.2)%

General and Administrative Expense. The decrease in general and administrative expense was primarily attributable to a decrease in transaction and organizational restructuring costs and a reduction in our corporate associate headcount since the beginning of the prior year period as we scaled our general and administrative costs in connection with community dispositions. Transaction and organizational restructuring costs decreased \$20.4 million compared to the prior period, to \$5.0 million for the nine months ended September 30, 2019. Transaction costs include those directly related to acquisition, disposition, financing and leasing activity, our assessment of options and alternatives to enhance stockholder value, and stockholder relations advisory matters, and are primarily comprised of legal, finance, consulting, professional fees and other third party costs. Organizational restructuring costs include those related to our efforts to reduce general and administrative expense and our senior leadership changes, including severance and retention costs. For the full year 2019, we expect transaction costs related to stockholder advisory matters to be approximately \$5.5 million, of which \$3.5 million was incurred for the nine months ended September 30, 2019.

Facility Operating Lease Expense. The decrease in facility operating lease expense was primarily due to lease termination activity since the beginning of the prior year.

Depreciation and Amortization. The decrease in depreciation and amortization expense was primarily due to disposition activity through sales and lease terminations since the beginning of the prior year.

Goodwill and Asset Impairment. During the current year period, we recorded \$6.3 million of non-cash impairment charges, primarily for management contract intangible assets associated with terminated contracts and property, plant and equipment and leasehold intangibles for certain communities, primarily within the Assisted Living and Memory Care segment. During the prior year period, we recorded \$452.0 million of non-cash impairment charges. The prior year period impairment charges primarily consisted of \$351.7 million of goodwill impairment within the Assisted Living and Memory Care segment, \$50.2 million of impairment of property, plant and equipment and leasehold intangibles for certain communities, primarily in the Assisted Living and Memory Care segment, \$33.4 million of impairment of our investments in unconsolidated ventures, and \$15.0 million for assets held for sale. See Note 5 to the condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information about the impairment charges.

Loss (Gain) on Facility Lease Termination and Modification, Net. During the current year period, we recorded a \$2.0 million loss on facility lease termination and modification, net for the termination of leases for eight communities. The decrease in loss on facility lease termination and modification, net was primarily due to a \$125.7 million loss on the restructuring of community leases with Ventas and a \$24.9 million loss on lease termination activity with Welltower, which was partially offset by a \$1.8 million gain on lease termination activity with HCP, during the nine months ended September 30, 2018.

Costs Incurred on Behalf of Managed Communities. The decrease in costs incurred on behalf of managed communities was primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

Interest Expense. The decrease in interest expense was primarily due to financing lease termination activity and a decrease in interest expense on long-term debt, reflecting the impact of the repayment of debt since the beginning of the prior year period and lower interest rates.

Debt Modification and Extinguishment Costs. The increase in debt modification and extinguishment costs was primarily due to an increase debt modification activity compared to the prior year period.

Equity in Earnings (Loss) of Unconsolidated Ventures. The decrease in equity in loss of unconsolidated ventures was primarily due to the sale of investments in unconsolidated ventures since the beginning of the prior year period.

Gain (Loss) on Sale of Assets, Net. The decrease in gain on sale of assets, net was primarily due to a \$59.1 million gain on sale of our investments in unconsolidated ventures and a \$12.6 million gain on sale of six communities during the prior year period.

Benefit (Provision) for Income Taxes. The difference between our effective tax rate for the nine months ended September 30, 2019 and 2018 was primarily due to the non-deductible impairment of goodwill that occurred in the nine months ended September 30, 2018 and the adjustment from stock-based compensation which was greater in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2019.

We recorded an aggregate deferred federal, state, and local tax benefit of \$40.7 million as a result of the operating loss for the nine months ended September 30, 2019, offset by an increase in the valuation allowance of \$39.4 million. The change in the valuation allowance for the nine months ended September 30, 2019 resulted from anticipated reversal of future tax liabilities offset by future tax deductions. We recorded an aggregate deferred federal, state, and local tax benefit of \$71.3 million as a result of the operating loss for the nine months ended September 30, 2018, which was offset by an increase in the valuation allowance of \$52.2 million.

We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Our valuation allowance as of September 30, 2019 and December 31, 2018 was \$387.9 million and \$336.4 million, respectively.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the three months ended September 30, 2019 and 2018 which are included in provision for income tax for the period. Tax returns for years 2014 through 2018 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Operating Results - Unconsolidated Ventures

The Company's proportionate share of Adjusted EBITDA of unconsolidated ventures was \$32.0 million for the nine months ended September 30, 2019, which represented a decrease of 24.1% from the nine months ended September 30, 2018 primarily attributable to the sale of our interest in five unconsolidated ventures since the beginning of the prior year period.

Liquidity and Capital Resources

This section includes the non-GAAP liquidity measure Adjusted Free Cash Flow. See "Non-GAAP Financial Measures" below for our definition of the measure and other important information regarding such measure, including reconciliations to the most comparable GAAP measures. During the first quarter of 2019, we modified our definition of Adjusted Free Cash Flow to no longer adjust net cash provided by (used in) operating activities for changes in working capital items other than prepaid insurance premiums financed with notes payable and lease liability for lease termination and modification. Amounts for all periods herein reflect application of the modified definition.

Liquidity and Indebtedness

The following is a summary of cash flows from operating, investing, and financing activities, as reflected in the consolidated statements of cash flows, and our Adjusted Free Cash Flow and proportionate share of Adjusted Free Cash Flow of unconsolidated ventures:

<i>(in thousands)</i>	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Net cash provided by (used in) operating activities	\$ 128,330	\$ 170,508	\$ (42,178)	(24.7)%
Net cash provided by (used in) investing activities	(150,355)	(13,027)	137,328	NM
Net cash provided by (used in) financing activities	(112,834)	(239,929)	(127,095)	(53.0)%
Net increase (decrease) in cash, cash equivalents, and restricted cash	(134,859)	(82,448)	52,411	63.6 %
Cash, cash equivalents, and restricted cash at beginning of period	450,218	282,546	167,672	59.3 %
Cash, cash equivalents, and restricted cash at end of period	\$ 315,359	\$ 200,098	\$ 115,261	57.6 %
Adjusted Free Cash Flow	\$ (76,915)	\$ 37,110	\$ (114,025)	NM
Brookdale's proportionate share of Adjusted Free Cash Flow of unconsolidated ventures	18,280	20,004	(1,724)	(8.6)%

The decrease in net cash provided by operating activities was attributable primarily to the impact of disposition activity, through sales and lease terminations, since the beginning of the prior year period and an increase in same community facility operating expense. These changes were partially offset by \$46.6 million of cash paid to terminate community operating leases during the prior year period.

The increase in net cash used in investing activities was primarily attributable to a \$189.3 million decrease in proceeds from sales of marketable securities, purchases of \$137.8 million of marketable securities during the current year period, a \$78.5 million decrease in net proceeds from the sale of assets, and a \$37.0 million increase in cash paid for capital expenditures. These changes were partially offset by \$271.3 million of cash paid for the acquisition of communities during the prior year period and a \$32.5 million increase in cash proceeds from notes receivable.

The decrease in net cash used in financing activities was primarily attributable to a \$97.8 million decrease in repayment of debt and financing lease obligations compared to the prior year period, including the impact of our cash settlement of the aggregate principal amount of the \$316.3 million of 2.75% convertible senior notes during June 2018, a \$38.6 million increase in debt proceeds compared to the prior year period, and \$12.5 million of cash paid to terminate community financing leases during the prior year period. These changes were partially offset by \$18.4 million of cash paid during the current year period for share repurchases.

The decrease in Adjusted Free Cash Flow was primarily attributable to a \$49.5 million increase in non-development capital expenditures, net, and an increase in same community facility operating expense. These changes were partially offset by the impact of disposition activity, through sales and lease terminations, since the beginning of the prior year period. The decrease in our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures was primarily attributable to the sale of our interest in five unconsolidated ventures since the beginning of the prior year.

Our principal sources of liquidity have historically been from:

- cash balances on hand, cash equivalents, and marketable securities;
- cash flows from operations;
- proceeds from our credit facilities;
- funds generated through unconsolidated venture arrangements;
- proceeds from mortgage financing, refinancing of various assets, or sale-leaseback transactions;
- funds raised in the debt or equity markets; and
- proceeds from the disposition of assets.

Over the longer-term, we expect to continue to fund our business through these principal sources of liquidity.

Our liquidity requirements have historically arisen from:

- working capital;
- operating costs such as employee compensation and related benefits, severance costs, general and administrative expense, and supply costs;
- debt service and lease payments;
- acquisition consideration, lease termination and restructuring costs, and transaction and integration costs;
- capital expenditures and improvements, including the expansion, renovation, redevelopment, and repositioning of our current communities, and the development of new communities;
- cash collateral required to be posted in connection with our financial instruments and insurance programs;
- purchases of common stock under our share repurchase authorizations;
- other corporate initiatives (including integration, information systems, branding, and other strategic projects); and
- prior to 2009, dividend payments.

Over the near-term, we expect that our liquidity requirements will primarily arise from:

- working capital;
- operating costs such as employee compensation and related benefits, general and administrative expense, and supply costs;
- debt service and lease payments;
- acquisition consideration, including the acquisition of 18 communities pursuant to agreements with HCP and the acquisition of certain leased communities under purchase option provisions;
- transaction costs and expansion of our healthcare services;
- capital expenditures and improvements, including the expansion, renovation, redevelopment, and repositioning of our existing communities;
- cash collateral required to be posted in connection with our financial instruments and insurance programs;
- purchases of common stock under our share repurchase authorization; and
- other corporate initiatives (including information systems and other strategic projects).

We are highly leveraged and have significant debt and lease obligations. As of September 30, 2019, we had two principal corporate-level debt obligations: our secured credit facility providing commitments of \$250.0 million and our separate unsecured facility providing for up to \$47.5 million of letters of credit.

As of September 30, 2019, we had \$3.6 billion of debt outstanding, excluding lease obligations, at a weighted-average interest rate of 4.66%. As of such date, 95.5% or \$3.4 billion, of our total debt obligations represented non-recourse property-level mortgage financings, \$88.6 million of letters of credit had been issued under our secured credit facility and separate unsecured letter of credit facility, and no balance was drawn on our secured credit facility. As of September 30, 2019, the current portion of long-term debt was \$343.6 million, including \$30.8 million of mortgage debt related to six communities classified as held for sale as of September 30, 2019. As of September 30, 2019, \$1.1 billion of our long-term debt is variable rate debt subject to interest rate cap agreements. The remaining \$102.9 million of our long-term variable rate debt is not subject to any interest rate cap agreements.

As of September 30, 2019, we had \$1.5 billion and \$858.0 million of operating and financing lease obligations, respectively. For the twelve months ending September 30, 2020 we will be required to make approximately \$312.4 million and \$89.0 million of cash payments in connection with our existing operating and financing leases, respectively.

In connection with the multi-part transaction with HCP entered into in October 2019, we agreed to acquire 18 communities for an aggregate purchase price of \$405.5 million in 2020, which we expect to close during the three months ended March 31, 2020. We expect to fund the acquisition with non-recourse mortgage financing on the acquired communities and a portion of the proceeds from the sale of our interest in the CCRC Venture.

Additionally, in the three months ended September 30, 2019, we provided notice of our intent to exercise the purchase option with respect to eight of our leased communities (336 units) and expect the purchase to close in the three months ending March 31, 2020. We expect to fund the acquisitions with the proceeds from non-recourse mortgage financing on the acquired communities and cash on hand.

Total liquidity of \$455.4 million as of September 30, 2019 included \$241.4 million of unrestricted cash and cash equivalents (excluding restricted cash and lease security deposits of \$122.6 million in the aggregate), \$49.8 million of marketable securities,

and \$164.2 million of availability on our secured credit facility. Total liquidity as of September 30, 2019 decreased \$137.1 million from total liquidity of \$592.5 million as of December 31, 2018. The decrease was primarily attributable to the negative \$76.9 million of Adjusted Free Cash Flow, repayment of debt of \$387.7 million during the period, \$18.4 million paid for share repurchases, an increase in restricted cash deposits on our insurance programs as we replaced letters of credit as collateral with restricted cash, and a lower amount available on the secured credit facility. These decreases were partially offset by proceeds from debt of \$318.5 million, net cash proceeds of \$53.4 million from asset sales, and cash proceeds of \$34.1 million from notes receivable during the current period.

As of September 30, 2019, our current liabilities exceeded current assets by \$429.6 million. Our current liabilities include \$251.5 million of operating and financing lease obligations recognized on our condensed consolidated balance sheet, including \$188.6 million for the current portion of operating lease obligations recognized on our condensed consolidated balance sheet as a result of the application of ASC 842. Additionally, due to the nature of our business, it is not unusual to operate in the position of negative working capital because we collect revenues much more quickly, often in advance, than we are required to pay obligations, and we have historically refinanced or extended maturities of debt obligations as they become current liabilities. Our operations generally result in a very low level of current assets primarily stemming from our deployment of cash to pay down long-term liabilities, to fund capital expenditures, and to pursue transaction opportunities.

Capital Expenditures

Our capital expenditures are comprised of community-level, corporate, and development capital expenditures. Community-level capital expenditures include recurring expenditures (routine maintenance of communities over \$1,500 per occurrence, including for unit turnovers (subject to a \$500 floor)) and community renovations, apartment upgrades, and other major building infrastructure projects. Corporate capital expenditures include those for information technology systems and equipment, the expansion of our support platform and healthcare services programs, and the remediation or replacement of assets as a result of casualty losses. Development capital expenditures include community expansions and major community redevelopment and repositioning projects, including our Program Max initiative, and the development of new communities.

Through our Program Max initiative, we intend to expand, renovate, redevelop, and reposition certain of our communities where economically advantageous. Certain of our communities may benefit from additions and expansions or from adding a new level of service for residents to meet the evolving needs of our customers. These Program Max projects include converting space from one level of care to another, reconfiguration of existing units, the addition of services that are not currently present, or physical plant modifications. We currently have 15 Program Max projects that have been approved, most of which have begun construction and are expected to generate 28 net new units.

Following Hurricane Irma in 2017, legislation was adopted in the State of Florida in March 2018 that requires skilled nursing homes and assisted living and memory care communities in Florida to obtain generators and fuel necessary to sustain operations and maintain comfortable temperatures in the event of a power outage. Our impacted Florida communities must be in compliance as of January 1, 2019, which has been extended in certain circumstances. To comply with this legislation, we made approximately \$12.1 million and \$4.5 million in capital expenditures in 2018 and the nine months ended September 30, 2019, respectively. We expect to incur approximately \$0.5 million of additional capital expenditures in the remainder of 2019 to comply with this legislation.

The following table summarizes our capital expenditures for the nine months ended September 30, 2019 for our consolidated business:

<i>(in millions)</i>	Nine Months Ended September 30, 2019
Community-level capital expenditures, net ⁽¹⁾	\$ 158.5
Corporate ⁽²⁾	21.7
Non-development capital expenditures, net ⁽³⁾	180.2
Development capital expenditures, net	18.7
Total capital expenditures, net	\$ 198.9

(1) Reflects the amount invested, net of lessor reimbursements of \$12.0 million.

(2) Includes \$10.5 million of remediation costs at our communities resulting from hurricanes and for the acquisition of emergency power generators at our impacted Florida communities.

(3) Amount is included in Adjusted Free Cash Flow.

During 2018 we completed an intensive review of our community-level capital expenditure needs with a focus on ensuring that our communities are in appropriate physical condition to support our strategy and determining what additional investments are needed to protect the value of our community portfolio. As a result of that review, we have budgeted to make significant additional near-term investments in our communities, a portion of which will be reimbursed by our lessors. In the aggregate, we expect our full-year 2019 non-development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$250 million. For 2019, this includes an increase of approximately \$75 million in our community-level capital expenditures relative to 2018, primarily attributable to major building infrastructure projects. We also expect our full-year 2019 development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$30 million. We anticipate that our 2019 capital expenditures will be funded from cash on hand, cash flows from operations, and, if necessary, amounts drawn on our secured credit facility. With this additional investment in our communities, we expect our Adjusted Free Cash Flow to be negative for 2019. In addition, we expect that our 2020 community-level capital expenditures will continue to be elevated relative to 2018, but lower than 2019.

Execution on our strategy, including completing our capital expenditure plans and pursuing expansion of our healthcare services, may require additional capital. We expect to continue to assess our financing alternatives periodically and access the capital markets opportunistically. If our existing resources are insufficient to satisfy our liquidity requirements, we may need to sell additional equity or debt securities. Any such sale of additional equity securities will dilute the percentage ownership of our existing stockholders, and we cannot be certain that additional public or private financing will be available in amounts or on terms acceptable to us, if at all. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock. If we are unable to raise additional funds or obtain them on terms acceptable to us, we may have to forgo, delay or abandon our plans.

We currently estimate that our existing cash flows from operations, together with cash on hand, amounts available under our secured credit facility and proceeds from anticipated dispositions of owned communities and financings and refinancings of various assets, will be sufficient to fund our liquidity needs for at least the next 12 months, assuming a relatively stable macroeconomic environment.

Our actual liquidity and capital funding requirements depend on numerous factors, including our operating results, our actual level of capital expenditures, general economic conditions, and the cost of capital. Volatility in the credit and financial markets may have an adverse impact on our liquidity by making it more difficult for us to obtain financing or refinancing. Shortfalls in cash flows from operating results or other principal sources of liquidity may have an adverse impact on our ability to maintain capital spending levels, to execute on our strategy or to pursue lease restructuring, development, or acquisitions that we may identify. In order to continue some of these activities at historical or planned levels, we may incur additional indebtedness or lease financing to provide additional funding. There can be no assurance that any such additional financing will be available or on terms that are acceptable to us.

Credit Facilities

On December 5, 2018, we entered into a Fifth Amended and Restated Credit Agreement with Capital One, National Association, as administrative agent, lender and swingline lender and the other lenders from time to time parties thereto (the "Amended Agreement"). The Amended Agreement amended and restated in its entirety our Fourth Amended and Restated Credit Agreement dated as of December 19, 2014 (the "Original Agreement"). The Amended Agreement provides commitments for a \$250 million revolving credit facility with a \$60 million sublimit for letters of credit and a \$50 million swingline feature. We have a one-time right under the Amended Agreement to increase commitments on the revolving credit facility by an additional \$100 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The Amended Agreement provides us a one-time right to reduce the amount of the revolving credit commitments, and we may terminate the revolving credit facility at any time, in each case without payment of a premium or penalty. The Amended Agreement extended the maturity date of the Original Agreement from January 3, 2020 to January 3, 2024 and decreased the interest rate payable on drawn amounts. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the Amended Agreement reduced the applicable margin from a range of 2.50% to 3.50% to a range of 2.25% to 3.25%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.25% margin at utilization equal to or lower than 35%, a 2.75% margin at utilization greater than 35% but less than or equal to 50%, and a 3.25% margin at utilization greater than 50%. A quarterly commitment fee continues to be payable on the unused portion of the facility at 0.25% per annum when the outstanding amount of obligations (including revolving credit and swingline loans and letter of credit obligations) is greater than or equal to 50% of the revolving credit commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the revolving credit commitment amount.

The credit facility is secured by first priority mortgages on certain of our communities. In addition, the Amended Agreement permits us to pledge the equity interests in subsidiaries that own other communities and grant negative pledges in connection

therewith (rather than mortgaging such communities), provided that not more than 10% of the borrowing base may result from communities subject to negative pledges. Availability under the revolving credit facility will vary from time to time based on borrowing base calculations related to the appraised value and performance of the communities securing the credit facility and our consolidated fixed charge coverage ratio. During the third quarter of 2019, we added three communities to the borrowing base and entered into an amendment to the Amended Agreement that provides for availability calculations to be made at additional consolidated fixed charge coverage ratio thresholds.

The Amended Agreement contains typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. Amounts drawn on the credit facility may be used for general corporate purposes.

As of September 30, 2019, no borrowings were outstanding on the revolving credit facility, \$41.2 million of letters of credit were outstanding, and the revolving credit facility had \$164.2 million of availability. We also had a separate unsecured credit facility providing for up to \$47.5 million of letters of credit as of September 30, 2019 under which \$47.5 million of letters of credit had been issued as of that date.

Long-Term Leases

As of September 30, 2019, we operated 335 communities under long-term leases (244 operating leases and 91 financing leases). The substantial majority of our lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. We typically guarantee the performance and lease payment obligations of our subsidiary lessees under the master leases. Due to the nature of such master leases, it is difficult to restructure the composition of our leased portfolios or economic terms of the leases without the consent of the applicable landlord. In addition, an event of default related to an individual property or limited number of properties within a master lease portfolio may result in a default on the entire master lease portfolio.

The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or tied to changes in the consumer price index or the leased property revenue. We are responsible for all operating costs, including repairs, property taxes, and insurance. As of September 30, 2019, the weighted-average remaining lease term of our operating and financing leases was 7.1 and 8.5 years, respectively. The lease terms generally provide for renewal or extension options from 5 to 20 years and in some instances, purchase options.

The community leases contain other customary terms, which may include assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions, and financial covenants, such as those requiring us to maintain prescribed minimum net worth and stockholders' equity levels and lease coverage ratios, and not to exceed prescribed leverage ratios as further described below. In addition, our lease documents generally contain non-financial covenants, such as those requiring us to comply with Medicare or Medicaid provider requirements. Certain leases contain cure provisions, which generally allow us to post an additional lease security deposit if the required covenant is not met.

In addition, certain of our master leases and management agreements contain radius restrictions, which limit our ability to own, develop or acquire new communities within a specified distance from certain existing communities covered by such agreements. These radius restrictions could negatively affect our ability to expand or develop or acquire senior housing communities and operating companies.

For the three and nine months ended September 30, 2019, our cash lease payments for our operating leases were \$76.6 million and \$231.0 million, respectively, and for our financing leases were \$22.1 million and \$66.5 million, respectively. For the twelve months ending September 30, 2020, we will be required to make approximately \$312.4 million and \$89.0 million of cash lease payments in connection with our existing operating and financing leases, respectively. Our capital expenditure plans for 2019 include required minimum spend of approximately \$12 million for capital expenditures under certain of our community leases, and thereafter we are required to spend an average of approximately \$20 million per year under the initial lease terms of such leases.

Debt and Lease Covenants

Certain of our debt and lease documents contain restrictions and financial covenants, such as those requiring us to maintain prescribed minimum net worth and stockholders' equity levels and debt service and lease coverage ratios, and requiring us not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. Net worth is generally calculated as stockholders' equity as calculated in accordance with GAAP, and in certain circumstances, reduced by intangible assets or liabilities or increased by deferred gains from sale-leaseback transactions and

deferred entrance fee revenue. The debt service and lease coverage ratios are generally calculated as revenues less operating expenses, including an implied management fee and a reserve for capital expenditures, divided by the debt (principal and interest) or annual lease payments. In addition, our debt and lease documents generally contain non-financial covenants, such as those requiring us to comply with Medicare or Medicaid provider requirements.

Our failure to comply with applicable covenants could constitute an event of default under the applicable debt or lease documents. Many of our debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors).

Furthermore, our debt and leases are secured by our communities and, in certain cases, a guaranty by us and/or one or more of our subsidiaries. Therefore, if an event of default has occurred under any of our debt or lease documents, subject to cure provisions in certain instances, the respective lender or lessor would have the right to declare all the related outstanding amounts of indebtedness or cash lease obligations immediately due and payable, to foreclose on our mortgaged communities, to terminate our leasehold interests, to foreclose on other collateral securing the indebtedness and leases, to discontinue our operation of leased communities, and/or to pursue other remedies available to such lender or lessor. Further, an event of default could trigger cross-default provisions in our other debt and lease documents (including documents with other lenders or lessors). We cannot provide assurance that we would be able to pay the debt or lease obligations if they became due upon acceleration following an event of default.

As of September 30, 2019, we are in compliance with the financial covenants of our debt agreements and long-term leases.

Contractual Commitments

Significant ongoing commitments consist primarily of leases, debt, purchase commitments, and certain other long-term liabilities. For a summary and complete presentation and description of our ongoing commitments and contractual obligations, see the "Contractual Commitments" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 14, 2019. There have been no material changes outside the ordinary course of business in our contractual commitments during the nine months ended September 30, 2019.

Off-Balance Sheet Arrangements

As of September 30, 2019, we do not have an interest in any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

We own an interest in certain unconsolidated ventures. Except in limited circumstances, our risk of loss is limited to our investment in each venture. The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q contains the financial measures Adjusted EBITDA and Adjusted Free Cash Flow, which are not calculated in accordance with GAAP. Presentations of these non-GAAP financial measures are intended to aid investors in better understanding the factors and trends affecting our performance and liquidity. However, investors should not consider these non-GAAP financial measures as a substitute for financial measures determined in accordance with GAAP, including net income (loss), income (loss) from operations, or net cash provided by (used in) operating activities. We caution investors that amounts presented in accordance with our definitions of these non-GAAP financial measures may not be comparable to similar measures disclosed by other companies because not all companies calculate non-GAAP measures in the same manner. We urge investors to review the reconciliations included below of these non-GAAP financial measures from the most comparable financial measures determined in accordance with GAAP.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP performance measure that we define as net income (loss) excluding: benefit/provision for income taxes, non-operating income/expense items, and depreciation and amortization; and further adjusted to exclude income/expense associated with non-cash, non-operational, transactional, cost reduction, or organizational restructuring items that management does not consider as part of our underlying core operating performance and that management believes impact the comparability of performance between periods. For the periods presented herein, such other items include non-cash impairment

charges, gain/loss on facility lease termination and modification, operating lease expense adjustment, amortization of deferred gain, change in future service obligation, non-cash stock-based compensation expense, and transaction and organizational restructuring costs. Transaction costs include those directly related to acquisition, disposition, financing, and leasing activity, our assessment of options and alternatives to enhance stockholder value, and stockholder relations advisory matters, and are primarily comprised of legal, finance, consulting, professional fees, and other third party costs. Organizational restructuring costs include those related to our efforts to reduce general and administrative expense and our senior leadership changes, including severance and retention costs. During the first quarter of 2019, we modified our definition of Adjusted EBITDA to exclude transaction and organizational restructuring costs, and amounts for all periods herein reflect application of the modified definition.

Our proportionate share of Adjusted EBITDA of unconsolidated ventures is calculated based on our equity ownership percentage and in a manner consistent with our definition of Adjusted EBITDA for our consolidated entities. Our investments in unconsolidated ventures are accounted for under the equity method of accounting and, therefore, our proportionate share of Adjusted EBITDA of unconsolidated ventures does not represent our equity in earnings or loss of unconsolidated ventures on our condensed consolidated statements of operations.

We believe that presentation of Adjusted EBITDA as a performance measure is useful to investors because (i) it is one of the metrics used by our management for budgeting and other planning purposes, to review our historic and prospective core operating performance, and to make day-to-day operating decisions; (ii) it provides an assessment of operational factors that management can impact in the short-term, namely revenues and the controllable cost structure of the organization, by eliminating items related to our financing and capital structure and other items that management does not consider as part of our underlying core operating performance and that management believes impact the comparability of performance between periods; and (iii) we believe that this measure is used by research analysts and investors to evaluate our operating results and to value companies in our industry. We believe that presentation of our proportionate share of Adjusted EBITDA of unconsolidated ventures is useful to investors for similar reasons with respect to the unconsolidated ventures.

Adjusted EBITDA has material limitations as a performance measure, including: (i) excluded interest and income tax are necessary to operate our business under our current financing and capital structure; (ii) excluded depreciation, amortization, and impairment charges may represent the wear and tear and/or reduction in value of our communities, goodwill, and other assets and may be indicative of future needs for capital expenditures; and (iii) we may incur income/expense similar to those for which adjustments are made, such as gain/loss on sale of assets or facility lease termination and modification, debt modification and extinguishment costs, non-cash stock-based compensation expense, and transaction and other costs, and such income/expense may significantly affect our operating results.

The table below reconciles our Adjusted EBITDA from our net income (loss).

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ (78,508)	\$ (37,140)	\$ (177,169)	\$ (659,883)
Provision (benefit) for income taxes	(1,800)	(17,763)	(488)	(17,724)
Equity in (earnings) loss of unconsolidated ventures	2,057	1,340	3,574	6,907
Debt modification and extinguishment costs	2,455	33	5,194	77
Loss (gain) on sale of assets, net	(579)	(9,833)	(2,723)	(76,586)
Other non-operating (income) loss	(3,763)	17	(9,950)	(8,074)
Interest expense	62,078	68,626	188,271	215,067
Interest income	(2,162)	(1,654)	(8,059)	(7,578)
Income (loss) from operations	(20,222)	3,626	(1,350)	(547,794)
Depreciation and amortization	93,550	110,980	284,462	341,351
Goodwill and asset impairment	2,094	5,500	6,254	451,966
Loss (gain) on facility lease termination and modification, net	—	2,337	2,006	148,804
Operating lease expense adjustment	(4,814)	(2,487)	(13,626)	(14,656)
Amortization of deferred gain	—	(1,090)	—	(3,269)
Non-cash stock-based compensation expense	5,929	6,035	18,315	20,710
Transaction and organizational restructuring costs	3,910	3,221	5,005	25,383
Adjusted EBITDA ⁽¹⁾	\$ 80,447	\$ 128,122	\$ 301,066	\$ 422,495

- (1) Adoption of the new lease accounting standard effective January 1, 2019 will have a non-recurring impact on our full-year 2019 Adjusted EBITDA. Adjusted EBITDA for the three and nine months ended September 30, 2019 includes a negative net impact of approximately \$6.0 million and \$19.0 million, respectively, from the application of the new lease accounting standard.

The table below reconciles our proportionate share of Adjusted EBITDA of unconsolidated ventures from net income (loss) of such unconsolidated ventures. For purposes of this presentation, amounts for each line item represent the aggregate amounts of such line items for all of our unconsolidated ventures.

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ (4,156)	\$ (6,674)	\$ (7,189)	\$ (42,753)
Provision (benefit) for income taxes	18	64	65	507
Debt modification and extinguishment costs	—	13	21	131
Loss (gain) on sale of assets, net	23	—	—	2,837
Other non-operating (income) loss	78	(5)	78	(1,875)
Interest expense	7,042	12,849	21,770	62,858
Interest income	(897)	(830)	(2,574)	(2,416)
Income (loss) from operations	2,108	5,417	12,171	19,289
Depreciation and amortization	17,108	22,135	50,937	123,257
Asset impairment	—	63	302	336
Operating lease expense adjustment	—	—	—	8
Adjusted EBITDA of unconsolidated ventures	\$ 19,216	\$ 27,615	\$ 63,410	\$ 142,890
Brookdale's proportionate share of Adjusted EBITDA of unconsolidated ventures	\$ 9,800	\$ 11,280	\$ 31,997	\$ 42,140

Adjusted Free Cash Flow

Adjusted Free Cash Flow is a non-GAAP liquidity measure that we define as net cash provided by (used in) operating activities before: distributions from unconsolidated ventures from cumulative share of net earnings, changes in prepaid insurance premiums financed with notes payable, changes in operating lease liability for lease termination and modification, cash paid/received for gain/loss on facility lease termination and modification, and lessor capital expenditure reimbursements under operating leases; plus: property insurance proceeds and proceeds from refundable entrance fees, net of refunds; less: Non-Development Capital Expenditures and payment of financing lease obligations. Non-Development Capital Expenditures is comprised of corporate and community-level capital expenditures, including those related to maintenance, renovations, upgrades and other major building infrastructure projects for our communities and is presented net of lessor reimbursements. Non-Development Capital Expenditures does not include capital expenditures for community expansions and major community redevelopment and repositioning projects, including our Program Max initiative, and the development of new communities. During the first quarter of 2019, we modified our definition of Adjusted Free Cash Flow to no longer adjust net cash provided by (used in) operating activities for changes in working capital items other than prepaid insurance premiums financed with notes payable and lease liability for lease termination and modification, and amounts for all periods herein reflect application of the modified definition.

Our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures is calculated based on our equity ownership percentage and in a manner consistent with our definition of Adjusted Free Cash Flow for our consolidated entities. Our investments in our unconsolidated ventures are accounted for under the equity method of accounting and, therefore, our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures does not represent cash available to our consolidated business except to the extent it is distributed to us.

We believe that presentation of Adjusted Free Cash flow as a liquidity measure is useful to investors because (i) it is one of the metrics used by our management for budgeting and other planning purposes, to review our historic and prospective sources of operating liquidity, and to review our ability to service our outstanding indebtedness, pay dividends to stockholders, engage in share repurchases, and make capital expenditures, including development capital expenditures; (ii) it is used as a metric in our performance-based compensation programs; and (iii) it provides an indicator to management to determine if adjustments to current spending decisions are needed. We believe that presentation of our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures is useful to investors for similar reasons with respect to the unconsolidated ventures and, to the extent such cash is not distributed to us, it generally represents cash used or to be used by the ventures for the repayment of debt, investing in expansions or acquisitions, reserve requirements, or other corporate uses by such ventures, and such uses reduce our potential need to make capital contributions to the ventures of our proportionate share of cash needed for such items.

Adjusted Free Cash Flow has material limitations as a liquidity measure, including: (i) it does not represent cash available for dividends, share repurchases, or discretionary expenditures since certain non-discretionary expenditures, including mandatory debt principal payments, are not reflected in this measure; (ii) the cash portion of non-recurring charges related to gain/loss on facility lease termination and modification generally represent charges/gains that may significantly affect our liquidity; and (iii) the impact of timing of cash expenditures, including the timing of Non-Development Capital Expenditures, limits the usefulness of the measure for short-term comparisons. In addition, our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures has material limitations as a liquidity measure because it does not represent cash available directly for use by our consolidated business except to the extent actually distributed to us, and we do not have control, or we share control in determining, the timing and amount of distributions from our unconsolidated ventures and, therefore, we may never receive such cash.

The table below reconciles our Adjusted Free Cash Flow from our net cash provided by (used in) operating activities.

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net cash provided by (used in) operating activities	\$ 69,211	\$ 71,924	\$ 128,330	\$ 170,508
Net cash provided by (used in) investing activities	(70,056)	(24,539)	(150,355)	(13,027)
Net cash provided by (used in) financing activities	(8,755)	(37,949)	(112,834)	(239,929)
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ (9,600)	\$ 9,436	\$ (134,859)	\$ (82,448)
Net cash provided by (used in) operating activities	\$ 69,211	\$ 71,924	\$ 128,330	\$ 170,508
Distributions from unconsolidated ventures from cumulative share of net earnings	(858)	(1,012)	(2,388)	(2,159)
Changes in prepaid insurance premiums financed with notes payable	(6,215)	(6,181)	5,875	6,244
Changes in operating lease liability related to lease termination	—	—	—	33,596
Cash paid for loss on facility operating lease termination and modification, net	—	—	—	13,044
Changes in assets and liabilities for lessor capital expenditure reimbursements under operating leases	(11,043)	—	(12,043)	—
Non-development capital expenditures, net	(59,121)	(41,275)	(180,187)	(130,692)
Property insurance proceeds	—	—	—	156
Payment of financing lease obligations	(5,549)	(13,370)	(16,502)	(53,271)
Proceeds from refundable entrance fees, net of refunds	—	(368)	—	(316)
Adjusted Free Cash Flow	\$ (13,575)	\$ 9,718	\$ (76,915)	\$ 37,110

- (1) The calculation of Adjusted Free Cash Flow includes transaction costs of \$3.9 million and \$5.0 million for the three and nine months ended September 30, 2019, respectively, and transaction and organizational restructuring costs of \$3.2 million and \$25.4 million for the three and nine months ended September 30, 2018, respectively.

The table below reconciles our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures from net cash provided by (used in) operating activities of such unconsolidated ventures. For purposes of this presentation, amounts for each line item represent the aggregate amounts of such line items for all of our unconsolidated ventures.

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net cash provided by (used in) operating activities	\$ 29,397	\$ 24,497	\$ 84,778	\$ 122,269
Net cash provided by (used in) investing activities	(12,097)	(14,623)	(29,527)	(45,011)
Net cash provided by (used in) financing activities	(14,538)	(9,702)	(39,775)	(62,361)
Net increase (decrease) in cash, cash equivalents, and restricted cash	\$ 2,762	\$ 172	\$ 15,476	\$ 14,897
Net cash provided by (used in) operating activities	\$ 29,397	\$ 24,497	\$ 84,778	\$ 122,269
Non-development capital expenditures, net	(11,993)	(14,822)	(29,674)	(53,750)
Property insurance proceeds	—	—	—	1,535
Proceeds from refundable entrance fees, net of refunds	(5,763)	(2,500)	(19,396)	(12,535)
Adjusted Free Cash Flow of unconsolidated ventures	\$ 11,641	\$ 7,175	\$ 35,708	\$ 57,519
Brookdale's proportionate share of Adjusted Free Cash Flow of unconsolidated ventures	\$ 5,938	\$ 4,618	\$ 18,280	\$ 20,004

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks from changes in interest rates charged on our credit facilities and other variable-rate indebtedness. The impact on earnings and the value of our long-term debt are subject to change as a result of movements in market rates and prices. As of September 30, 2019, we had approximately \$2.3 billion of long-term fixed rate debt and \$1.2 billion of long-term variable rate debt. For the nine months ended September 30, 2019, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 4.78%.

In the normal course of business, we enter into certain interest rate cap agreements with major financial institutions to effectively manage our risk above certain interest rates on variable rate debt. As of September 30, 2019, \$1.1 billion, or 31.7%, of our long-term debt is variable rate debt subject to interest rate cap agreements and \$102.9 million, or 2.9%, of our long-term debt is variable rate debt not subject to any interest rate cap agreements. Our outstanding variable rate debt is indexed to LIBOR, and accordingly our annual interest expense related to variable rate debt is directly affected by movements in LIBOR. After consideration of hedging instruments currently in place, increases in LIBOR of 100, 200, and 500 basis points would have resulted in additional annual interest expense of \$12.6 million, \$24.8 million, and \$36.2 million, respectively. Certain of the Company's variable debt instruments include springing provisions that obligate the Company to acquire additional interest rate caps in the event that LIBOR increases above certain levels, and the implementation of those provisions would result in additional mitigation of interest costs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that, as of September 30, 2019, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information contained in Note 11 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by this reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Not applicable.
- (b) Not applicable.
- (c) The following table contains information regarding purchases of our common stock made during the quarter ended September 30, 2019 by or on behalf of the Company or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (\$ in thousands) ⁽²⁾
7/1/2019 - 7/31/2019	—	\$ —	—	\$ 67,703
8/1/2019 - 8/31/2019	16,631	8.23	—	67,703
9/1/2019 - 9/30/2019	—	—	—	67,703
Total	<u>16,631</u>	<u>\$ 8.23</u>	<u>—</u>	

- (1) Consists of 16,631 shares withheld to satisfy tax liabilities due upon the vesting of restricted stock during August 2019. The average price paid per share for such share withholding is based on the closing price per share on the vesting date of the restricted stock or, if such date is not a trading day, the trading day immediately prior to such vesting date.
- (2) On November 1, 2016, the Company announced that its Board of Directors had approved a share repurchase program that authorizes the Company to purchase up to \$100.0 million in the aggregate of its common stock. The share repurchase program is intended to be implemented through purchases made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. Shares of stock repurchased under the program will be held as treasury shares. As of September 30, 2019, approximately \$67.7 million remained available under the repurchase program.

Item 6. Exhibits

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation of the Company, as amended.</u>
3.2	<u>Amended and Restated Bylaws of the Company dated October 29, 2019 (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed on October 29, 2019 (File No. 001-32641)).</u>
4.1	<u>Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) filed on November 7, 2005 (File No. 333-127372)).</u>
10.1	<u>First Amendment to Fifth Amended and Restated Credit Agreement and Other Credit Documents dated August 16, 2019 by and among the Company as Guarantor, certain subsidiaries of the Company as Borrowers, Capital One, National Association, as Administrative Agent, Lender and Swingline Lender, and the other Lenders party thereto.</u>
10.2	<u>Amendment No. 3 to Master Lease and Security Agreement by and between certain affiliates of the Company named therein as Tenant and certain affiliates of Ventas, Inc. named therein as landlord.</u>
10.3	<u>Amendment No. 4 to Master Lease and Security Agreement by and between certain affiliates of the Company named therein as Tenant and certain affiliates of Ventas, Inc. named therein as landlord.†</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (included in Exhibit 101).

† Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROOKDALE SENIOR LIVING INC.

(Registrant)

By: /s/ Steven E. Swain

Name: Steven E. Swain

Title: Executive Vice President and Chief
Financial Officer
(Principal Financial Officer)

Date: November 5, 2019